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IMPACT OF FEDERAL REGULATION ON STATE AND LOCAL GOVERNMENTS

Impact of Federal Regulation on Sta...

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET

HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

HEARING HELD IN WASHINGTON, DC, MAY 2, 1995

Serial No. 104-15



OCT 17 1995

Printed for the use of the Committee on the Budget

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IMPACT OF FEDERAL REGULATION ON STATE AND LOCAL GOVERNMENTS

TUESDAY, MAY 2, 1995

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 1 p.m. in room 210, Cannon House Office Building, Hon. John R. Kasich (chairman of the committee) presiding.

Members present: Representatives Kasich, Kolbe, Herger, Bunning, Smith of Texas, Allard, Lazio, Franks, Hoke, Hoekstra, Largent, Shadegg, Radanovich, Bass, Sabo, Stenholm, Slaughter, Mink, Orton, Pomeroy, Browder, Woolsey, Roybal-Allard, and Meek.

Chairman KASICH. The Budget Committee will come to order. I want to welcome Jim Patterson, the mayor of Fresno, CA, and I believe a constituent of Mr. Radanovich, and also Bret Schundler. Bret Schundler, of course, mayor of Jersey City, and really a national figure in our Republican Party, a guy who has been viewed as being very innovative. And I appreciate their being here today to talk about some of the difficulties that they have in operating their city in relation to the Federal Government.

Part of the problem we have had is a lot of unfunded mandates, as you all know, and you are going to end up at the end of the day feeling the pinch of moving to a balanced budget. But what we want is for you to build a case on the other side of the ledger as to some of the things that we can do to help you participate in the solution that we are going to have for our country.

So I want to welcome the two mayors here today, and look forward to your testimony. And I will turn it over to Mr. Sabo.

Mr. SABO. I welcome the two mayors and look forward to hearing your comments.

Mr. SCHUNDLER. Thank you.

Mr. PATTERSON. Thank you.

**STATEMENTS OF THE HONORABLE BRET SCHUNDLER, MAYOR
OF JERSEY CITY, NJ; AND THE HONORABLE JIM PATTERSON,
MAYOR OF FRESNO, CA**

STATEMENT OF THE HONORABLE BRET SCHUNDLER

Mr. SCHUNDLER. I would like to thank you, Chairman Kasich and Mr. Sabo for allowing us to appear before you to speak about some of the problems that Federal regulations create for State and local governments.

Burdensome Federal regulations come in two varieties. One is unfunded mandates and the other, I would argue, is program regulations. And the argument against unfunded mandates is simple: Washington should not tell State and local governments how to spend their money. If Congress believes that State and local governments have an obligation to take on certain activities in a peculiar policy area, then Washington should appropriate the funds necessary to accomplish that goal. Congress should not just take the credit for passing legislation that promises wonderful things, but then stick local officials with the bill.

Program regulations pose even larger problems for struggling urban communities. What I mean by program regulations is the maze of rules and bureaucratic minutia that we have to contend with to spend Federal dollars, the so-called strings which come attached to every Federal grant and loan we receive.

Expanding the stock of affordable housing in distressed neighborhoods is a priority of mine, but HUD regulations require us to pay Davis-Bacon wages, which serve to increase construction costs by approximately 30 percent. That means that instead of building 100 homes with a given amount of money to subsidize them for first-time qualified home buyers, I can only build 70. And since Davis-Bacon removes any incentive to hire nonunion labor, local non-union contractors and laborers, many of whom are minorities, often lose the opportunity to compete effectively for employment.

If you think about it on a macro level, the Washington-focused system that we have today doesn't make sense. Hard-working residents of Jersey City send a part of every paycheck to Washington to pay their income taxes. Then Washington lops a percentage off the top for administrative overhead and offers a portion of those dollars back to Jersey City, but only if we agree to fill out a mountain of paperwork and jump through the series of regulatory hoops.

Government serves the public best when it is closest to the people. The decisionmaking process in Washington is too distant and too controlled by special interests for the average citizen to have much influence. It is much easier for people to influence their local government and the result is that local governments tend to be much more responsive to the will of the people.

As a mayor, I can tell you that I would really like to see the Federal Government cut its taxes dramatically so that more money is controlled close to home and so that State and local governments and individual citizens all have the ability to set their own budget priorities.

Let me give you an example of how block grants and tax reform could be used to affect such a devolution of power. The first example deals with our welfare system. We all agree that the current system is broken. It is grotesquely inefficient and it unintentionally encourages the breakup of families, traps the poor in dependency, and destroys the human spirit.

For instance, by some estimates less than 40 percent of the dollars spent on social welfare programs actually make it to the pockets of the poor. The majority of government social spending pays for the salaries of Federal, State, and local government employees who administer welfare programs. And look at the perverse incentives inherent in the current welfare system.

In Jersey City, a family consisting of a mother and two children is eligible to receive a package worth \$20,000 in total benefits. If that mother were to take an entry level job that pays \$12,000 with no health benefits, she would lose all her welfare benefits and her income would be taxed. Therefore, her reward for switching from welfare to work would be that her family income is cut in half.

I believe that for all able-bodied persons, we should replace Federal welfare programs with locally administered workfare programs financed by Federal block grants. These workfare jobs would not have to be publicly administered. They could be competitively contracted to private management companies to provide supplementary neighborhood service.

For example, I could use workfare labor in Jersey City to supplement the effort to clean our streets. I could use them to do block watching with our community-based police officers so that when a senior citizen walks on the streets at night she feels safe because there is someone there with a walkie-talkie connected to the local neighborhood officer. We could have them work with local child care centers and through the block granted labor we could decrease the cost of child care.

For this program to be successful, workfare jobs would have to pay less than the prevailing private sector minimum wage so that they do not become employment destinations in and of themselves and it would be important that supplementary benefits provided to workfare recipients be not eliminated when a workfare employee finds a higher paying private sector job. We need a system that rewards self-sufficiency instead of dependence.

To accomplish these objectives, Congress must enact fundamental tax reform. We should replace the current IRS code with a flat tax rate system that incorporates a high standard deduction and several nonmeans-tested, refundable tax credits to help defray the cost of health insurance and other essentials.

All of this is described in an attachment that you have before you called a blueprint for economic justice. Making these credits nonmeans-tested would correct the perverse incentives in the current system which rewards Americans for staying poor and penalizes them for working hard to increase their family income.

Taken together, these workfare and Tax Code changes would eliminate the need for most of the Federal Government's income assistance programs, increase the rewards for work, and satisfy the government's interest in helping low-income Americans obtain the necessities of life.

And again, it would do this while creating a system that enables people to get on their own two feet and I think that should be the goal.

Congress can make the difference, but not by mandating—but not my mandating what children should learn and how teachers should teach, but rather by encouraging innovative research and funding creative educational pilot programs. We can see examples of educational programs which are succeeding all over America; not only in the suburbs but in the cities. Not only in private schools, but also in public schools. And not only with gifted children, but with disadvantaged children as well.

The secret to success of many of these programs is simple. They have broken away from the traditional top-down bureaucratic approach to education. Instead of trying to create the one-size-fits-all best system, the architects of these programs have developed a variety of approaches. The fact is that the one-size-fits-all approach doesn't work.

The Federal Government could revolutionize education in urban America instead of bureaucratically regulating America's public schools. It provided Federal grants to communities which experimented with alternative education programs, charter schools, for instance, and voucher programs and other types of educational reform. That is the way that you could stimulate real innovation at the local level and free up teachers in the classroom to try things.

I would like to leave with you one last point. Regulations and mandates are not optional. They are the law. And every mandate and regulation you impose on us prevents us from using the Federal resources we receive in the most efficient and effective manner. Every mandate that you pass ties our hands a little tighter.

Since mandates are the law, they have to be enforced. And since mandates must be enforced, Federal, State, and local governments must hire bureaucrats to enforce them. And because bureaucrats do not work for free, every mandate you pass not only stifles our creativity, but reduces the amount of resources available to improve the quality of life in our communities.

State and local governments don't need new mandates and don't need new spending programs, but we need for the power over our lives to be returned to the American people. Thank you very much. [The prepared statement of Bret Schundler follows:]

PREPARED STATEMENT OF HON. BRET SCHUNDLER, MAYOR, JERSEY CITY, NJ

Chairman Kasich, thank you for the opportunity to address the committee on some of the problems which Federal regulations create for State and local governments.

Burdensome Federal regulations come in two basic varieties: unfunded mandates and program regulations.

The argument against unfunded mandates is simple: Washington should not tell State and local governments how to spend their money. If Congress believes that State and local governments should take certain actions in a particular policy area, then it ought to appropriate the funds necessary to accomplish that goal. Congress should not just take the credit for passing legislation that promises wonderful things, but then sticks local officials with the bill.

Program regulations pose even larger problems for struggling urban communities. What I mean by program regulations is the maze of rules and bureaucratic minutiae that we have to contend with to spend Federal dollars—the so-called strings which Congress and the Federal bureaucracy attach to every Federal grant or loan we receive.

Expanding the stock of affordable housing in distressed neighborhoods is one of my major priorities. But HUD regulations require us to pay Davis-Bacon wages, which serve to increase construction costs by approximately 30 percent. That means that instead of building 100 homes, I can only build 70. And since Davis-Bacon removes any incentive to hire nonunion labor, local nonunion contractors and laborers—many of whom are minorities—often lose the opportunity to compete effectively for many employment opportunities.

If you think about it on a macrolevel, the Washington-focused system we have today doesn't make sense. A hard-working resident in Jersey City sends a part of every pay check to Washington to pay his income taxes. Then Washington lops a percentage off the top for administrative overhead and offers a portion of those dollars back to Jersey City, but only if we agree to fill out a mountain of paperwork and jump through a series of regulatory hoops.

Government serves the public best when it is closest to the people. The decision-making process in Washington is too distant and too controlled by special interests for the average citizen to have much influence. It's much easier for citizens to influence their local government, and the result is that local governments tend to be much more responsive to the will of the people.

Hence, as a mayor, I can tell you that what I would really like to see is the Federal Government cut its taxes and spending dramatically, so that more money is controlled close to home, and so that State and local governments, and individual citizens, all have the ability to set their own budget priorities.

Let me give you two examples of how block grants and tax reform could be used to affect such a devolution of power.

The first example deals with our welfare system. We all agree that the current system is broken. It is grotesquely inefficient, and it unintentionally encourages the breakup of families, traps the poor in dependency, and destroys the human spirit.

For instance, by some estimates, less than 40 percent of the dollars spent on social welfare programs actually make it to the pockets of the poor. Instead, the majority of government social spending pays for the salaries of Federal, State, and local government employees who administer welfare programs.

And look at the perverse incentives inherent in the current welfare system. In Jersey City, NJ, a family consisting of a mother and two children is eligible to receive a package worth \$20,000 in total benefits. If that mother were to take an entry level job that pays \$12,000 with no health benefits, she would lose all her welfare benefits and her income would be taxed. Therefore, her reward for switching from welfare to work would be that her family income is cut in half.

I believe that for all able-bodied persons, we should replace Federal welfare programs with locally administered workfare programs financed by Federal block grants. These workfare jobs would not have to be publicly administered. They could be competitively contracted by local communities to provide supplementary public services. For example, I could use workfare labor to supplement the staff at day care centers so that child care is affordable for all, to serve as block watchers in our neighborhoods in order to prevent crime, and to clean our streets of litter and graffiti.

For this program to be successful, workfare jobs would have to pay less than the prevailing private sector minimum wage so that they do not become employment destination in and of themselves. It would also be important that supplementary benefits provided to workfare recipients not be eliminated when a workfare employee finds a higher-paying, private sector job. We need a system that rewards self-sufficiency instead of dependence.

To accomplish these objectives, Congress must enact fundamental tax reform. We should replace the current IRS code with a flat tax rate system that incorporates a high standard deduction and several nonmeans-tested, refundable tax credits to help defray the cost of health insurance, housing, food, and day care. Such a set of refundable tax credits, when combined with flat marginal tax rates would provide significant progressivity in effective tax rates. Making these credits nonmeans-tested would correct the perverse incentives in the current system, which rewards Americans for staying poor and penalizes them for working hard to increase their family income.

Taken together, these workfare and Tax Code changes would eliminate the need for most of the Federal Government's income assistance programs, increase the rewards for work, and satisfy the government's interest in helping low-income Americans obtain the necessities of life. I have submitted a more extensive explanation of this plan for the record, entitled "A Blueprint for Economic Justice."

The second example I would like to briefly touch on involves the education of our children. The Federal Government spends billions of dollars each year on education, but those resources have little or no effect in the thousands of classrooms throughout the United States.

Congress can make a difference, not by mandating what children should learn and how teachers should teach, but by encouraging innovative research and funding creative educational pilot programs. We can see examples of educational programs which are succeeding all over America: not only in the suburbs, but in the cities, not only in private schools, but in public schools, and not only with gifted children, but with disadvantaged children.

The secret to the success of many of these programs is simple: they have broken away from the traditional, top-down, bureaucratic approach to education that is pervasive in most school systems. Instead of trying to create the one best education system, the architects of these programs have developed a variety of approaches to meeting the very different needs of very different children. The fact is a one-size-fits-all approach to education does not work.

The Federal Government could revolutionize education in urban America if instead of bureaucratically regulating America's public schools, it provided Federal grants to communities which experimented with alternative education programs, charter schools, school voucher programs, and other types of education reform.

I would like to leave you with one last point: regulations and mandates are not optional. They are the law. Every mandate and regulation you impose on us prevents us from using the Federal resources we receive in the most efficient and effective manner. Every mandate you pass, in short, ties our hands a little tighter.

Since mandates are law, they must be enforced. And since mandates must be enforced, Federal, State, and local governments must hire bureaucrats to enforce them. And because bureaucrats don't work for free, every mandate you pass not only stifles our creativity, but reduces the amount of resources available to us to improve the quality of life in our communities.

State and local governments don't need new mandates, and we don't need new Federal programs. What we need is for the power over their lives to be returned to the American people.

A BLUEPRINT FOR ECONOMIC JUSTICE

(By Bret Schundler)

For the remainder of this year, the new Republican majority in Congress will probably wrestle with the key issues of welfare and tax reform. This is a good thing. An economically just combination of welfare and tax policies would help every American adult onto the ladder of economic opportunity by ensuring: First, that every person who is willing to work is able to find a job; second, that every person who takes a job is able to earn a decent living; and third, that every person who works hard to increase family income is benefited for doing so and not penalized. But far from accomplishing these goals, America's current welfare and tax policies are grotesquely inefficient, and unintentionally function to encourage the breakup of families, trap the poor in dependency, and destroy the human spirit.

By some estimates, less than 40 percent of the dollars spent on social welfare programs actually make it to the poor. The majority of the money goes to pay salaries for the Federal, State, and local government employees who administer the various programs. From an efficiency standpoint alone, this suggests problems with the current approach.

But a greater problem is that today's welfare and tax policies encourage the breakup of families. In an article entitled "What To Do About the Children?," Bill Bennett cites studies which project that for children born in 1980, only 30 percent of white children, and only 6 percent of black children, will live with both parents through the age of 18. This is a national catastrophe, yet far from working to mitigate this disastrous situation, today's welfare and tax policies exacerbate it. Welfare income is not earned through work, it is given on the specific condition that one bears children one cannot afford: in effect, creating a positive incentive for illegitimacy. Unwed teenage mothers, some of whom are too immature to live on their own, are given government housing if they leave their parents' households. If an adult who does earn income joins a single parent's household, welfare benefits are reduced. And—heaven forbid—if the couple decides to marry, the Tax Code assesses a marriage penalty.

It only makes matters worse, that our current welfare and tax policies breed dependence. In Jersey City, NJ, the average family on welfare, consisting of a mother and two children, receives benefits with a total value of approximately \$20,000—including food stamps, housing assistance, Medicaid, and cash assistance. When a welfare eligible mother applies for benefits, she is mandated to look for work. Yet, should she actually take a job—even an entry level job which pays only \$12,000 a year and comes without medical coverage—she will lose her welfare benefits and her income will be taxed. Her reward for switching from welfare to work is that her effective family income will be cut in half.

What a perverse system it is that mandates virtue, but pays for vice; that mandates a parent must look for a job, but penalizes her if she takes one.

Who can be surprised that the result of such welfare and tax policies has been that once some families go onto welfare, they never leave. Liberals argue that the problem is a lack of jobs, but the facts demonstrate that jobs alone are not the answer. In Massachusetts, during the halcyon days of the 1980's, there was technically zero unemployment. Everyone who was looking for a job could find one. Yet the welfare rolls still grew every year. This proves that the problem is more than just a lack of jobs. The problem is a welfare and tax system which penalizes work and breeds dependence, and has a devastating effect upon the human spirit.

There are some who think that to talk about the human spirit is nonsense. But I ask you to think about yourself for a moment. Would you want to be a coma victim? Would you want to have to lie on your back and have the air that you breathe pumped into your lungs by an external respirator? Would you want to be dependent for your food upon the grace of others and a supplying network of tubes? Being in a coma is the ultimate state of dependency, and for many Americans, it is the ultimate nightmare. Being dependent on welfare is not much better.

You want to walk on your own two feet, to breathe freely, and to earn what you eat and drink. You have felt happiest in life, I suspect, not when you have been given things, but rather when you have been able to accomplish something on your own and be proud of the achievement. Why imagine that a mother on welfare would experience life any differently?

Right behind my home there is a public housing project. The material conditions of the housing are not bad. In fact, many of Jersey City's housing projects were originally built for middle-class veterans returning from the Second World War, and have been reasonably well maintained over the years. What makes living in these housing projects undesirable is not their physical characteristics, but rather the sense of hopelessness that destroys many of the families who live within them. Human beings do not live by bread alone, we need a sense of purpose. And it is through our work that many of us gain that sense of purpose. In almost a literal sense, we work out our salvation. But the welfare system denies this opportunity to its victims. And it is when this positive sense of purpose is missing within a family, that many of our youth become alienated and turn to violence or to drug-induced escape.

You can see the spiritual destructiveness of today's welfare system in some inner-city neighborhoods where more children have been in trouble with the law by the time they are 18 than have received a high school diploma. This cruel reality is not an inadvertent mistake. It is the direct and inevitable outgrowth of policies which for decades have stacked the deck against the poor. It is high time we change direction, and make America a land of opportunity again.

To begin the process of change, Federal welfare programs providing cash assistance for employable adults should be replaced with municipally administered workfare programs paid for with Federal block grant moneys. These workfare jobs would not have to be publicly administered. They could be jobs with private firms, competitively contracted by the municipal government to provide supplementary public services. For example, as the Mayor of Jersey City, I would use this grant paid labor, among other things, to help staff day care facilities so that day care in Jersey City is inexpensive and affordable to all; to do block watch work so that Jersey City's streets can be made safe again; and to clean our streets of litter and graffiti so that when our children go outside they internalize order from their external environment instead of chaos.

Under this workfare system, cities which failed to demand true work in exchange for workfare paychecks would find themselves magnets for the slothful, but cities which did enforce the work requirement would be able to provide improved public services without increasing local property taxes. This would help improve the quality of life in our inner cities, which are where the vast majority of America's poor live. But even more importantly, this workfare program would elevate the spirit of the otherwise unemployed by giving them the opportunity to earn their living.

The three essentials of a successful workfare program are: One, that workfare jobs must pay less than the prevailing private sector minimum wage, so that workfare jobs are able to help the unemployed transition to private sector jobs, but do not become an employment destination in and of themselves; two, that workfare income be sufficiently supplemented to allow someone working at a workfare job to live decently; and three, that any supplementary benefits provided to workfare recipients not be eliminated when the recipient finds a higher paying, private sector job. To accomplish these goals, significant tax law changes will have to be implemented.

To this latter end, I propose that Congress abandon the current complicated, antiwork Tax Code, and replace it with a flat-tax rate which incorporates: a higher standard deduction; a nonmeans tested, refundable tax credit targeted specifically for health insurance or Medical Savings Account expenses; a nonmeans tested, refundable, earned income tax credit to help pay for life's other essentials—such as housing, food, and day care; the indexing of capital gains; and a limited, nonrefundable tax credit for charitable contributions that help the poor.

A refundable tax credit is one which refunds cash to its targeted beneficiaries when they do not have a high enough tax liability to fully benefit from a regular tax credit. For example, someone with a \$150 tax liability, and a \$250 refundable tax credit, would actually receive a check from the government for \$100. A set of refundable tax credits, when combined with a flat marginal tax rate system, would

provide for significant progressivity in effective tax rates. Making these tax credits nonmeans-tested would correct the perverse incentives of the current tax system, which reward Americans for staying poor and penalize them for working to increase their income. Making these tax credits refundable would ensure that the poor—who cannot fully utilize simple tax credits—would equally benefit. Targeting a specific credit toward covering health insurance or Medical Savings Account expenses would ensure that every citizen was both enabled and incentivized to obtain health insurance for their family. Providing a significant, general earned income tax credit would increase the rewards for work and satisfy the government's interest in helping low-income Americans obtain the necessities of life.

Taken together, these Tax Code changes would allow for the elimination of most other tax benefit and income assistance programs. For instance, deductions for mortgage interest payments and employer health care contributions could be eliminated, as could most other federally administered food, housing, and health care assistance programs. The chart below demonstrates that a workfare employee, working 40 hours per week at \$4 per hour, would earn \$8,000 a year, but because of the refundable tax credits, would be netted up to a total income of \$12,500. This household income could easily be doubled, simply by having two adults form a family. A mother who worked 30 hours a week at a workfare job and a father who worked 40 hours a week at a \$4.25 minimum wage job would together enjoy a \$23,365 household income, net of tax credits. They certainly would not be rich, but they would be able to live decently. And if the mother later found a higher paying private sector job, and the father later found a higher paying private sector job, their household income would grow without their losing benefits or being penalized with a higher marginal tax rate.

Combined with the indexing of capital gains, these changes would provide far greater rewards for economically marginal Americans to marry and work, would increase the return on their savings and investments, and—because working harder would actually enable individuals to better provide for their families instead of penalizing them—would once again allow every American to gain a sense of meaning and hope from their work. And on top of all of this, these changes would permit a significant reduction in inefficient government bureaucracy and government administrative expenses.

The States could build upon this foundation of economic justice. For instance, the States could initiate creative public-private partnerships in job training and job placement. The America Works program in New York is a model in this regard. The final tax credit mentioned above, for charitable contributions targeted to helping the poor, would create an explosion of such private initiatives. But the ultimate success of all such efforts at the State level is dependent upon a rock solid foundation of economic justice at the Federal level. And that is why these workfare block grants and tax code changes are so important.

There are other options which America could decide to pursue. We could leave today's welfare and tax policies in place, and just ignore their grotesque administrative inefficiency, as well as the damage they do to family stability, the dependency they breed, and their spiritual destructiveness. Alternatively, we could scrap the current welfare system, flatten tax rates, and leave no governmentally provided social safety net in place, while hoping that everyone is able to find a private sector job in a newly reinvigorated economy. I don't believe either of these two alternatives are acceptable.

The reforms I have proposed would ensure: First, that every American who was willing to work would have the opportunity to find a job; second, that every American who took a job would be able to earn enough money to live decently; and third, that every American who works hard to increase his or her family income would be benefited and not penalized. This is the direction in which we should be moving to empower every citizen with economic opportunity and to once again make America a land of liberty and justice for all.

CHART: NET INCOME EXAMPLES

(Figures based on 50 weeks per year)

	Work 30 hours per week	Work 40 hours per week
Income from workfare job earning \$4 per hour ¹	\$6,000	\$8,000
Tax liability ²	0	0
General purpose refund or credit ³	\$2,000	\$2,000
Health care refund or credit ⁴	\$2,500	\$2,500

CHART: NET INCOME EXAMPLES—Continued

[Figures based on 50 weeks per year]

	Work 30 hours per week	Work 40 hours per week
Total income net of refunds or taxes	\$10,500	\$12,500
Effective tax rate (percent)	(75)	(56)
Income from private job earning \$4.25 per hour	\$6,375	\$8,500
Tax liability ²	0	(\$135)
General purpose refund or credit ³	\$2,000	\$2,000
Health care refund or credit ⁴	\$2,500	\$2,500
Total income net of refunds or taxes	\$10,875	\$12,865
Effective tax rate (percent)	(71)	(51)
Income from private job earning \$5.50 per hour	\$8,250	\$11,000
Tax liability ²	(\$68)	(\$810)
General purpose refund or credit ³	\$2,000	\$2,000
Health care refund or credit ⁴	\$2,500	\$2,500
Total income net of refunds or taxes	\$12,682	\$14,690
Effective tax rate (percent)	(54)	(34)
Income from private job earning \$8 per hour	\$12,000	\$16,000
Tax liability ²	(\$1,080)	(\$2,160)
General purpose refund or credit ³	\$2,000	\$2,000
Health care refund or credit ⁴	\$2,500	\$2,500
Total income net of refunds or taxes	\$15,420	\$18,340
Effective tax rate (percent)	(29)	(15)
Income from private job earning \$12 per hour	\$18,000	\$24,000
Tax liability ²	(\$2,700)	(\$4,320)
General purpose refund or credit ³	\$2,000	\$2,000
Health care refund or credit ⁴	\$2,500	\$2,500
Total income net of refunds or taxes	\$19,800	\$24,180
Effective tax rate (percent)	(10)	(1)
Income from private job	\$30,000	\$40,000
Tax liability ²	(\$5,940)	(\$8,640)
General purpose refund or credit ³	\$2,000	\$2,000
Health care refund or credit ⁴	\$2,500	\$2,500
Total income net of refunds or taxes	\$28,560	\$35,860
Effective tax rate (percent)	5	10
Income from private job	\$50,000	\$60,000
Tax liability ²	(\$11,340)	(\$14,040)
General purpose refund or credit ³	\$2,000	\$2,000
Health care refund or credit ⁴	\$2,500	\$2,500
Total income net of refunds or taxes	\$43,160	\$50,460
Effective tax rate (percent)	14	16
Income from private job	\$80,000	\$100,000
Tax liability ²	(\$19,440)	(\$24,840)
General purpose refund or credit ³	\$2,000	\$2,000
Health care refund or credit ⁴	\$2,500	\$2,500

CHART: NET INCOME EXAMPLES—Continued

[Figures based on 50 weeks per year]

	Work 30 hours per week	Work 40 hours per week
Total income net of refunds or taxes	\$65,060	\$79,660
Effective tax rate (percent)	19	20
Income from private job	\$150,000	\$200,000
Tax liability ²	(\$38,340)	(\$51,840)
General purpose refund or credit ³	\$2,000	\$2,000
Health care refund or credit ⁴	\$2,500	\$2,500
Total income net of refunds or taxes	\$116,160	\$152,660
Effective tax rate (percent)	23	24

¹ Workfare jobs would be limited to a subminimum wage of \$4 per hour.² Marginal tax rate of 27 percent with \$8,000 standard deduction.³ Refundable earned income tax credit of \$2,000, refunded or credited quarterly, for general necessities. To receive refunds, returns must be filed quarterly showing earned income of at least \$1,200 per quarter.⁴ Refundable tax credits for health care of \$2,500. To receive refunds or tax credits, proof of insurance payments or MSA contributions required.

CHART: SAMPLE SCENARIOS

1. A single adult, without children, earning \$100,000 per year, would net \$79,660, representing an effective tax rate of 20 percent. The taxpayer would not be penalized for working hard to earn a relatively high income, and would be able to take advantage of the full \$8,000 standard deduction, the nonmeans tested \$2,000 general purpose tax credit, and the nonmeans tested \$2,500 tax credit for health care, which the taxpayer could claim after submitting proof of payment of health insurance or medical savings account expenses.

2. A married couple, with children, with one spouse earning \$80,000, and one spouse earning \$40,000, would net \$100,920, representing an effective tax rate of 16 percent on their combined income. The couple would take advantage of two standard deductions, two general purpose tax credits, and two health care tax credits. The couple would not receive any tax breaks for choosing to have children, but neither would the couple be penalized for choosing to marry and form a single household. Their combined tax liability would be precisely the same as it would have been had the two adults filed separately. In fact, the couple would receive some economic benefits for forming a family, since by sharing a single rent and family health insurance policy they would be able to stretch their spending.

3. A married couple, without children, one earning \$110,000 per year, and one reporting \$10,000 in income paid by the other spouse for homemaking services, would net the same \$100,920 as the couple above, representing the same 16 percent effective tax rate as the couple above, on a combined nominal income of \$120,000. The couple's actual external income would only be \$110,000, of course. But the artifice of having the homemaker bill the externally working spouse for \$10,000 in services would be accepted as a legitimate means by which the couple could take advantage of two standard deductions and two sets of general purpose health care tax credits. This would have the Tax Code recognize for the first time that homemaking is valuable work, and would provide a second economic benefit for marriage.

4. A single adult, with children, earning \$16,000 per year, would net \$18,340, representing an effective tax rate of minus 15 percent. Making ends meet on \$16,000 a year is hard enough, without having the government take out taxes. The netting up effect of the refundable tax credits would actually add to the reward for work that this adult receives from his or her employer.

5. Cohabiting adults, without children, one earning \$11,000 at a minimum wage job, and the other earning \$6,000 at a 30-hour per week workfare job, would net \$25,190, for an effective tax rate of minus 48 percent. Since this couple was not married, they would not be able to file a joint return. But since marriage and household formation is neither penalized nor preferred under this system, the couple's filing separate returns would have no economic consequence. They would simply receive the same economic benefit which all households receive from sharing a rent and medical policy between two or more income earners. This householding benefit, combined with the netting up of their two very modest incomes, would allow them to live decently even though they were working at very low paying jobs.

6. A single adult, with children, earning \$6,000 at a 30-hour per week workfare job, would net \$10,500, representing an effective tax rate of minus 75 percent. This adult would find it difficult making ends meet. This would give him or her an incentive to form a household, or share a rent and other expenses with at least one other adult. It would also encourage the adult to take advantage of job-training opportunities and search for a higher paying job. If the adult landed a 40-hour-a-week, \$8-an-hour job, his or her income, with the benefit of the refundable tax credits, would quickly rise to \$18,340.

7. A single adult, without children, fraudulently reporting \$6,000 per year of income from a workfare job, would net \$4,500, representing an infinitely negative effective tax rate, until such time as the fraud were detected. Of the fraudulently received \$4,500 in benefits, \$2,500 would represent a refund for health insurance premiums or MSA contributions. This would be cheaper than today's per person cost for providing Medicaid coverage. Another \$2,000 of the fraudulently received benefits would come back in the form of cash. This would hardly be enough to live on, creating a significant incentive for the adult to seek real employment and legitimize his or her claim for refundable, earned income tax credits.

Mr. FRANKS [presiding]. Thank you. It is great to have you in the Capitol.

Mayor Patterson.

STATEMENT OF THE HONORABLE JIM PATTERSON

Mr. PATTERSON. Mayor Schundler and I did not confer before coming to this meeting. It is the first time that I have had the opportunity of meeting him. And if you would allow me to, I would like to put my name on your comments. I endorse them. They are precisely the kinds of comments that I am here to deliver.

Let me first of all tell you that I come at this problem with an unabashed political and public policy bias. I happen to think that Thomas Jefferson was right. That government which is closest to the people governs best and that government that governs least governs best.

And I believe that there is a fresh wind blowing from Capitol Hill in that particular direction. And yet we are facing in the city of Fresno some significant problems. Let me talk about the crime bill passed by the 103d Congress.

We received about a million dollars, but quite frankly, we received that money with all the kinds of strings attached. Yes, we need more police officers, but we need to be able to use them as we see fit.

We are a city of 500,000 people fighting a growing crime wave. But we are not to be pigeonholed. We are different than Dallas, different than Jersey City, and we ought to be able to have the tax money that we sent to the Federal Government in the first place returned to us with as few restrictions and redtape as possible so that we can make the tough call at the local level whether or not to deploy new policemen in problem-oriented policing tactical teams or SWAT teams or in a helicopter operation.

We need help, but we do not need a federalized form of policing. We send a good deal of money to Washington. We would like to have it back with no strings. I am here to argue that we need a return to the days of general revenue sharing. Send us back our money and let us decide on the local level.

And if we mess up, we will be the first to hear it from the people. The people of Fresno ought to be the watchdogs over their money; not the bureaucracy here in Washington, DC, a long, long way away. I would rather trust our police chief to make tough decisions

with respect to how we deal with crime than bureaucracy here in Washington, DC, at the Justice Department.

I am here to warn against federalizing law enforcement. I believe that that is one of the principal primary obligations of local government. And if you send us money, but only allow us to use that money if we create police departments and law enforcement tactics that are in keeping with Federal policy, I think you handcuff our ability to fight crime in Fresno, CA.

I came very close to rejecting the \$1 million when it was sent because it just came with too many strings. Please, take the strings off. Trust us at the local level to be in touch with our people and trust the people to be in touch with us.

Let me talk about the costly effects of a particular mandate that is having a terrible effect on us in Fresno. It is the costly effect of a decade of clean water amendments.

A decade ago, the city of Fresno was delivering clean water. Nobody was getting sick and we were doing it at very affordable prices. A decade later, particularly after 5 years of amendments, we are still delivering clean water, nobody is getting sick, but the price tag is absolutely astounding.

The city of Fresno is probably going to spend \$50 million worth of retrofitting capital cost on our well system because 5 years ago 50 of those wells became obsolete because the standards changed. And I am here to tell you, we need relief. We need to have those mandates rolled back.

I think that they were initially put in place with the best of intentions, but I think they were unscientifically defining what it means to clean water. And I think that we have not weighed substantially the economic burden—and let me address that. If the Federal Government, and I believe that you are, is concerned about our local economies, then you must be reminded—and I know that this is a sympathetic Congress to this—you must be reminded that these costly mandates force local government to shift huge amounts of private wealth from the hands of private individuals into government monopolies.

My water system, because I have to spend \$50 million on 50 wells with a million dollars each on charcoal filtration, is moving substantial amounts of private wealth that is no longer available in the private economy, with multiplying effects.

In other words, the only economic benefit that these regulations are having is to make the producers of charcoal filtration systems wealthy. And yet people in Fresno are having to make a decision this month, next month, the month after that, whether to pay an ever-escalating water bill or whether to set aside money for their kids' college education or go out to dinner at their favorite restaurant or save money for a down payment on their new car. And I think that the Federal Government must be careful not to raid the private wealth of citizens for what I consider to be dubious public policy notions.

Let me talk about the unnecessary regulations attached to block grants to the cities. I will just echo what the mayor had to say, but localize it to Fresno.

The city of Fresno now receives about \$9.5 million of community development block grant. The regulations to administer these

grants, if they were stacked one on top of the other, would be as tall as my 10-year-old daughter. The associated and cumulative regulations on file, and regularly researched and worked on by our city staff in Fresno, for all of the other mandates that come down, if stacked one on top of the other, would nearly be twice as high as the current NCAA pole vault record.

These regulatory high marks have to be hurdled by us in Fresno and it costs us money to do so. We spend right now \$13 million annually in various departments complying with Federal regulations. My city manager tells me that it is possible, if you were to accumulate all of the grants that you send to the city of Fresno, reduce it by 20 or 25 percent, and then shed it of all of these unnecessary regulations, we actually would have more net money to do what it is you are asking us to do and what our people are asking us to do as well.

I think if you end the unnecessary regulations and the associated unnecessary local expenditures will end with it. If you will cut the associated redtape, I think we will do a better job on the local level, our primary obligation and responsibility.

A few quick random observations here from different departments at the city of Fresno. And much of it is concurred with here by Mayor Schundler. For example, my public works department says that the collection of Federal gas taxes should be sent directly to the States of origin instead of being distributed after FHWA takes its administrative costs.

The Davis-Bacon Act should be repealed. The financial burden placed on the city of Fresno is this: We are faced with—we are unable, faced with these regulations, to contract at the lowest possible competitive price. We could build far more public infrastructure, far more things that people need, if we were free of these unnecessary and outdated regulations.

My development department says that hazardous waste laws proposals for the removal of lead based paint, the proposals of radon in water, and the asbestos guidelines, are examples of costs that make it very difficult for property within our decaying inner-city to make a comeback.

Members of the committee, it is simply becoming much more cost-effective to locate on the edges of our city on new ground, building from the ground up, than it is to go into an historic building, a beautiful piece of architecture and restore it and reuse it and expand it because these regulations really work against the rehabilitation of usable space within our city's core.

Let me conclude with this. I said at the outset that I think there is a wind of change blowing from Capitol Hill. It is appreciated in Fresno, CA. Keep up the good work. The fact that this committee would invite the two mayors you have in front of you today to give testimony demonstrates the fact that you are sincere and you want to make these necessary changes that most of us agree must come about.

And so I thank you for the opportunity to be here and testify. But I thank you more for your willingness and your commitment to act.

Thank you.

[The prepared statement of Jim Patterson follows:]

PREPARED STATEMENT OF HON. JIM PATTERSON, MAYOR, FRESNO, CA

Mr. Chairman and members of the committee, may I first thank you for this opportunity to appear and testify to the effects of Federal policy on the ability of cities to deliver services demanded by the people residing in them. I will attempt to make my comments brief and to the point citing specific examples. My comments will focus on four particular areas:

1. Problems with the crime bill passed by the 103d Congress;
2. The unnecessary and costly effects of recent amendments to the Clean Water Act;
3. Unnecessary regulations attached to block grants to cities; and
4. Several associated random observations.

I admit to you at the outset that I approach this problem with a political and public policy bias. I concur with Thomas Jefferson that government closest to the people governs best and government which governs least governs best. Simply put, my plea today will be for the Federal Government to remember this: the money it spends does not belong to it; tax money originates from the earnings of citizens in cities and rural areas across the United States; and that it should be returned to them with as little as possible taken for Federal administrative costs and free from unnecessary regulatory strings.

PROBLEMS WITH THE CRIME BILL PASSED BY THE 103D CONGRESS

The city of Fresno has a population of nearly 500,000 and is in the midst of intensive attempts to gain control of a rapidly increasing crime rate. We are a distinct community. We cannot be pigeonholed and should not be forced to fight our local battle against crime according to Federal policy whims. But to qualify for grants from the crime bill passed by the 103d Congress, that is precisely what we were forced to do: conform our efforts to the Federal requirement—or be rejected. We have need for additional officers, but we should be allowed to use those officers as we see fit. We have need for additional equipment like a helicopter. We should be allowed the freedom of action to decide what kind of equipment we need and how to use it. I would rather trust our police chief to use these funds wisely than to trust bureaucrats in the Justice Department to decide for us.

Federalizing law enforcement by the use of tax dollars originated at the local level in the first place is not only bad policy, it is an affront to the Jeffersonian principles I cited in my opening remarks. If the Federal Government wants to help us fight crime in our local communities, simply return our tax money free of strings and let us decide how it should best be used. If we fail, the people of Fresno will be quick to set us right again. The people should remain our watchdogs, not the Federal bureaucracy.

COSTLY EFFECTS OF CLEAN WATER ACT AMENDMENTS

A decade ago, Fresno was drinking clean water. No one was getting sick and we were delivering it at an affordable rate. Today, after a decade of clean water amendments and regulations, we are still delivering clean water, no one is getting sick, but the cost has exploded. By unnecessary and unscientifically redefining what it means for localities to deliver clean water, the Federal Government has engaged in one of the most costly regulatory mandates in history.

We now must test and remove infinitesimal quantities of contaminants in order to comply with these regulations. The cost is huge. The benefit is very small. And the people of Fresno are paying the tab. By simply rolling back these unscientific and unnecessary standards to those adopted in the mid 1980's, we could save nearly \$50 million worth of capital costs alone. No one in Fresno would be any more at risk. Everyone in Fresno would benefit from the savings.

If the Federal Government really cares about local economies, it should remember that costly mandates like these force local government to transfer huge amounts of wealth from the private economy to the local municipal operations. That is private wealth rendered unavailable to be multiplied through the economy as individuals exercise free use of their discretionary income. In other words, people in Fresno are getting to the point whether to pay their local utility bill, or save for a downpayment on a new car—or some other similar private economic exchange. The Federal Government must be careful not to raid the private wealth of citizens for dubious public policy notions.

UNNECESSARY REGULATIONS ATTACHED TO BLOCK GRANTS TO CITIES

Some in the Federal Government act as if the Federal bureaucracy gets its money from a giant printing press in the basement of the Federal Reserve. It needs to be

reminded that every penny comes from taxes levied against the private wealth of its citizens. Block grants to cities provide a perfect vehicle to return those dollars to the people it came from in the first place. My request before you today is to return to the days of general revenue sharing to cities.

Operating police departments, fire departments, public parks, and paving streets are all fundamental requirements of government. Local sales tax and property tax revenues remain the only viable source to accomplish these fundamental aims, and yet tens of millions of income tax dollars leave Fresno for Washington, DC, every year around April 15. General revenue sharing would return those dollars for those fundamental purposes quickly and efficiently.

The city of Fresno now receives nearly \$10 million from community development block grant sources. The regulations to administer those grants, if stacked one on top of the other, would be nearly as tall as my 10-year-old daughter. Other Federal regulations, like I have mentioned previously, if stacked one on top of the other, would be nearly twice as high as the current NCAA pole vault record. To comply with the requirements of Federal regulations, the city of Fresno spends nearly \$13 million annually in various departments. End the unnecessary regulations and the associated unnecessary local expenditures will end with it. Cut the associated red-tape, and we will do a better job of our primary responsibility. Help us, and help yourselves at the same time, achieve our common ends.

A FEW RANDOM OBSERVATIONS

Before concluding, let me add a series of random comments compiled by our city manager from other departments which illustrate how far-reaching Federal regulations have become. Please remember, attached to each of these citations is not only a Federal cost, but a city cost as well.

For example, my public works department suggests that the collection of Federal gas taxes should be sent directly to the States of origin instead of being distributed after deducting FHWA costs. The Davis-Bacon Act should be repealed since it no longer serves the purpose of its original intent. The financial burden placed on the city by this act is quite large, since we are unable to contract at the lowest competitive bid prices.

My development department has concluded hazardous waste laws, proposals for the removal of lead-based paint, radon in water, and asbestos guidelines as additional examples of cost prohibitive mandates. Further, this department recommends that when a Federal environmental impact statement is required, the California Environmental Quality Act provisions for an EIR should be allowed as a substitute.

These general observations and suggestions are examples of the cumulative and costly effect of government mandates and regulations.

CONCLUSION

A refreshing wind of change is blowing from Capitol Hill. The fact that this committee would invite and welcome such testimony as I have given demonstrates a sincerity and willingness to make the necessary changes most of us agree must be made. Thank you for this opportunity to testify—but more than that—thank you for your willingness and commitment to act.

Mr. RADANOVICH. Thank you Mayors Patterson and Schundler for taking your time to be here today. I have to say it is refreshing. I think in the past we have heard a lot from local government when they approached in Washington. The common statement is we have got problems, send more money. And I think it has changed now: We have got problems, cut the regulation. And it is a refreshing comment, I think.

I do have a couple of questions. One with regard to general comments that I would like to get from both mayors and that would be this. What mechanism might you suggest Congress could devise to encourage States to devolve problems to local governments in cases where local administration would be more appropriate than State administration?

Keep in mind that I think we have had a lot of talk, I think, in Washington with regard to devolving power to the States. I in particular have a concern that none of this is going to work unless

that authority and flexibility is transferred from the States to the local level.

Would either one of you have any examples of—I am sure that must be a fear that might be shared by you as well in local government. And if there is a way that Federal Government can see to it that in cases where it might be appropriate, that the funds and less control can be brought right down to the local level instead.

Mr. SCHUNDLER. I agree with you 100 percent that if you devolve to the States and the States keep all the power and all the money and regulate the money that they give to the municipalities, we will not be any better off. The way you do that, the way you try to encourage it to get closer to the citizens themselves, or into the local communities, the way you encourage that is not necessarily through Federal mandate as through Federal support for pilot programs where you might directly grant money to a municipality to pilot a program.

Or, for instance, you might undertake a Federal voucher program which directly turns resources over to individual citizens. By doing things like that, you create models which ultimately will result in political pressure if those models are successful for them to be emulated more broadly and that is the appropriate way for the citizens to exercise accountability over their government.

Not that you end up becoming the person who looks out over everything that the State and local government does and then begins to get in the middle of it. But, rather, that you create a mechanism whereby the citizens can be made aware of how much better things could be if the power were devolved to the most local level, to the individual for issues like housing and schooling where getting the best for your own family is something that the individual should be able to look for.

And let's say at the local level police services are inherently a community service, not an individual service like housing or education. That decisionmaking power should be at the local level. If you grant the money to pilot programs at the respective level of government, it will create models which themselves create pressure from the citizens of the United States for that model to be emulated. And that will put the pressure on to the State legislatures not to horde, if you will, the resources and to create their own mini regulatory bodies.

Mr. PATTERSON. I concur. I will say it a little more forcefully. I think there was an attempt to be a bit genteel here, and I appreciate that. Don't send it to them in the first place. Send it to us; to the local operations.

Mr. Radanovich, you and I had, last time you were in the district, a very good meeting with our police chief, with our district attorney, with key people in law enforcement and we discussed whether or not it would be a good idea for the crime bill that the 104th Congress was passing, should move money from Washington to Sacramento rather than from Washington to Fresno.

We think that it is better that general revenue sharing grants come to Fresno. In fact, I don't mind if you even bypass the elected bodies and grant it to the police department or to the district attorney's office or to the juvenile justice system.

I think, based on my experience dealing with people in Fresno, we have very good people who are working very hard on solving these problems. And I think that if you unleash their creativity and their innovation, risk with them, allow them to risk, and, yes, to sometimes fail, we may be able to create programs, policies at the local level that absolutely work.

By that, I mean things happen. Crime is reduced, kids are taken care of, people are able to enjoy the economic fruits of their labors in cities all across the United States. Practice letting go of the reins of power, and I think that the States may very well find that they would like to follow your lead.

Mr. SCHUNDLER. If I could add one other consideration, I would ask you to read the blueprint for economic justice which is attached to my comments. The fundamental goal ultimately is to try to decrease the size of government's control of America's resources, whether you are talking about the Federal Government, the State government, or the local government. I think there are ways that the Federal Government, through its Tax Code could—would be able to actually eliminate economic assistance programs which are administered bureaucratically.

For instance, when we look at public housing, not only do our current public housing programs subsidize rental assistance, but we also have direct Federal investments in the actual public housing stock. So you have a cost of two sorts, one which is potentially voucherable. But then you also have the capital investment in the housing stock itself. That means that the actual cost of providing public housing the way you have done it bureaucratically through our hand and control governmental system would be a thousand dollars a month.

Any one of my low-income families in Jersey City could get housing, better housing in a nicer neighborhood, for far less than a thousand dollars a month. If I were able to create tax reform that incentivizes work and we could create workfare jobs for subminimum wages, private sector employers, not make-work, providing services in the community to upgrade the quality of life, these would be workfare jobs with a refundable tax credit. The beneficiary would make enough money that they could buy their own housing.

They could decide what health insurance plan to get. They could get their own food. And you could absolutely eliminate the government bureaucratic administration of various economic assistance programs like having government build housing. Like food stamps.

The savings you could achieve through that would be dramatic because, again, less than 40 percent of your welfare dollars ever makes it to a welfare beneficiary. You could eliminate that bureaucracy and have it administered through the Tax Code through netting up the income of a low-income person so they could buy what they need on their own and they don't need you.

That is real empowerment; bypassing the State altogether with the city doing nothing more than administering the workfare block grants with a Tax Code making sure that a person who works could make a decent liveable wage and choose their own service or product providers without having to go to the government as a monopoly provider which is inefficient.

Mr. RADANOVICH. Thank you.

Mr. Sabo.

Mr. SABO. Is there anything that prevents the State of New Jersey from deciding to experiment with charter school voucher programs or other types of educational reform?

Mr. SCHUNDLER. The teacher's union.

Mr. SABO. You are talking about politics. Is there anything that we do here that prevents the New Jersey State government from having that option?

Mr. SCHUNDLER. But what you do here circumscribes how we can creatively use the fund that you provide us.

Mr. SABO. What is that, 5 or 6 percent of the education dollars in New Jersey?

Mr. SCHUNDLER. It is a lot of money; \$30 billion Federal education budget. But I agree that the State of New Jersey should be reregulating—

Mr. SABO. Those are alternatives you have. The school voucher program may depend on your schools, but experimental programs are really options to you. There is nothing in Federal law that prevents that from happening today.

Mr. SCHUNDLER. I agree with you.

Mr. SABO. Let me just switch. I am curious about something else. You referred to 40 percent of the dollars spent on social welfare programs actually make it to the pockets of the poor.

Could you tell me what that is? There are lots of things we need to do to reform programs, but there are lots of myths that get peddled, too. I am curious about this 40 percent; which programs you are specifically referring to?

Mr. SCHUNDLER. Housing, a lot of the money that HUD spends is in the form of direct investment into the housing stock, into the public housing stock. Now—

Mr. SABO. But this is 40 percent into salaries of Federal, State, and local government employees.

Mr. SCHUNDLER. And contractors. Say the person who actually does the maintenance work at a public housing project, they may not be a direct government employee, but a contracted employee.

Mr. SABO. I assume maintenance is something that one needs to do.

Mr. SCHUNDLER. But if you took a portion of those dollars and simply made it available to the individual to live where they want to, the market provides that product for a fraction of the costs.

Mr. SABO. It may or may not. I am just curious where this 40-percent number comes from.

Mr. SCHUNDLER. That comes from studies that I have seen. I had some opportunity to read a number of studies which were produced by the Department of Housing and Urban Development and by other associated groups that they had contracted with to do studies for them.

Mr. SABO. Let me ask this question for both mayors: What is the relative amount of money you get from State government?

Mr. SCHUNDLER. In terms of our total budget? It is a much more sizable share than our Federal dollars.

Mr. SABO. In Jersey City?

Mr. SCHUNDLER. Absolutely.

Mr. SABO. What about in Fresno?

Mr. PATTERSON. Our primary source of revenue is sales taxation and property taxation that is collected by the county and by the State and sent to Fresno, primarily. But also much of our revenue is generated from fees from the rates that have to be charged for garbage and water and the like. It is the cumulative regulation of the Federal and the State requirements that are driving those costs up.

Mr. SABO. Just so you are aware, the unfunded mandate bill we passed had nothing to do with program regulations. And I fundamentally agree with you that program regulations, whether they are wise or unwise, can have a major positive or negative impact on States and local communities.

I noted with interest that shortly after passing that, we passed a revision of the crime bill which had major program regulations applied to those funds if States were to be eligible for using those funds. And, frankly, there were program regulations which I thought did not make sense. In trying to determine how a State sets their sentencing under their criminal justice system, we were imposing Federal judgments on every State and local government.

So, your optimism in terms of change in this institution and Congress may not be not quite as cautious as it should be.

And my experience is one needs to deal with those fundamentally, program by program. I don't think you are ever going to get to the situation where Congress is simply going to send money with no requirements. It is a question whether those requirements are rational, make sense, or serve a national purpose.

On the other hand, I have to tell you that your theory that no Federal regulations should be applied unless we apply it to all the local funds is somewhat attractive to someone who comes from Minnesota like myself. It would suggest that we could take care of our water problems by simply putting the sewage pipe at the Iowa border, and I don't think that would be something that our friends in Iowa and other places downstream would find particularly attractive.

And for the Federal Government to put some requirements on what we do in Minnesota I do not find objectionable. Clearly what we do with our water impacts the people of many, many other States down the river.

But I thank you for the testimony. I find that in many cases States and local governments today, frankly, have significant flexibility if they simply want to exercise it. And that is particularly true in the education area where the fundamental responsibility still rests ultimately with the State, which delegates that responsibility in 50 different ways to local school districts around this country, I think they have significant flexibility within the bounds of those State constitutions in how they organize and deliver those services.

Mr. SCHUNDLER. If I could just throw out the idea, I think there could be the possibility of having the Federal Government, without consuming a lot of resources, being constructive. Right now, as I mentioned, only a small portion of our education funding comes from the Federal Government, but it specifically comes targeted to specific programs and it comes highly regulated. That is not a lot

of money. But you could use it to make a big difference if you funded pilot programs with it. Then you would be able to leverage, creating models that create their own political support at the local level. And effectively politics is important.

We can talk about the fact that States have all the freedom in the world to do what would actually help children, but it is just politics which keeps them from doing it. Those things are important. And the Federal Government, without saying we are going to dictate how education should operate, could fund pilot programs on an application basis. And that would allow us to establish models which create their own momentum and urgency and that is the way the Federal Government, without spending a lot of money, could truly do an awful lot to improve American education.

Mr. SABO. Federal support in the elementary and secondary education has historically been categorical in nature, and not general in nature, and I am not sure I would want to move it from one to the other—from the categorical geared for specific problems—basically disadvantaged kids and handicapped kids and some vocational-technical education and some general planning—into being a general support for elementary and secondary. That is a big leap when you move in that direction.

But I find in terms of the power to govern, how you organize a general delivery of elementary and secondary education in the States, that fundamental responsibility does rest today with your State government and we don't supersede it at the Federal level.

Mr. RADANOVICH. Mr. Herger.

Mr. HERGER. Thank you, Mr. Chairman. And I certainly want to welcome Mr. Schundler and Mr. Patterson for joining us today on this issue, which I don't know if I hear of anything as I talk to our local governments and our States that is more on their minds than this idea of regulation and overregulation, and mandates and unfunded mandates. But if I could ask each of you, if you would, just in general, what would you say the percentage of your budgets go into mandates?

Mr. SCHUNDLER. The Federal dollars we get, which in my budget the Federal dollars are, let's say, about 35 percent. They are totally circumscribed by mandates. Mayor Patterson was talking about revenue sharing as a more appropriate way of providing assistance. I would argue that is right on the money.

When you think about it, the services that are most important in my community are the services that the local government provides; safe and clean streets, good schools and recreational programs for the kids. And I might add being able to do that at a low enough tax that doesn't destroy the local economy so that you can have growth.

These are things that are hard to provide which increasingly a larger and larger share of the American economic pie is taken away from us by the Federal Government's coercive power of taxation and they take that money and allow us to use it, but only if we use it for these discrete purposes. It is not just that the money—we can't use it because it is gone and they have it. But when they give it back to us the programs may actually hurt. The programs may actually hurt.

I think the welfare program as we have it today appears to trap people into dependency and actually hurts. And I have a city which is a very economically distressed city. I think our city would be a stronger place if we could use that money in a way that actually helps people instead of hurting them.

Mr. PATTERSON. I think there are two categories of amounts of money that accumulate to this cost of unfunded mandates. The first is what I call the clear costs, the one you can identify that I cited earlier, the \$13 million. These are secretaries and these are CPA's and account people and management analyst folks and people that have to wade through that 30-foot stack of regulations to make sure that we do our CDBG stuff right, because if we don't do it right you will say so and take it away from us.

I think those are very direct costs that in my city we can add up. I have \$140-million general fund of which I would presume that somewhere in the neighborhood of 3 to 5 percent of that \$13 million resides and I have a \$300 million utility and fee-based for service budgeting that probably takes the additional \$10 million. But there are what I would call unclear costs.

You have to look for them and find them. The people of Fresno are finding them. They are finding them in their water and garbage bill. When we have to put a million dollars' worth of charcoal filtration on 50 wells that 5 years ago were pumping what was then clean water and now is defined as dirty water, that is a million dollars times those 50 wells and the capital costs and bonding costs is going to show up in the payments that individual citizens are going to make. And that is a cost, a significant cost. And it is not so much borne by those of us in government as it is passed along and borne by those who are the citizens of the government.

Mr. HERGER. It is a point well taken. It is not just the cost that you are paying directly, but it is this cost that is being passed on to the consumer, of whom are paying for it one way or another anyway, taxes or directly.

What would be the top two regulations that you would like to see done away with or changed if you had your way?

Mr. SCHUNDLER. Because of the sizable population on welfare in my city, it would be those welfare regulations. I support the House proposal to block grant moneys to the State with a workfare requirement. I am not sure that all the other restrictions are as important to you, but that gives me the opportunity to go to the Governor and say I can immediately put my people to work. And I know that you don't know how to do that yet because you are too far removed, but I can immediately put my people to work. That would be No. 1 for me because I have so many people that are trapped in dependency and kept off the economic ladder.

I think probably the second most important regulation as far as we are concerned might be some of the environmental regulations. Ours is an old industrial city, because the regulations are so rigorous and unbending, they don't take account of the fact that you may be planning to build a chemical plant. You had a chemical plant there and you want to build a new chemical plant and you have to clean it up to the point where you can eat the soil. And nothing ever gets built there and it remains fallow land. No one cleans it up. They could eat it since it is an open field. If there was

a chemical plant back there, the plant would be there and you would be using the land. It just doesn't make sense.

Mr. PATTERSON. The first thing I would do, I know this is asking a lot, I would return to the days of general revenue sharing and add it all up, send it to the city of Fresno in a check and say, people of Fresno, we are going to trust that your local officials know what to do with this. Allow us to decide if we want to do police or fire or public parks or infrastructure or all of those general obligations that we really have to take care of. The money that comes to the Federal Government comes from the people. It doesn't come from a printing press in the basement of the Federal Reserve somewhere.

Mr. Sabo, who is not here, talked about trying to get somehow these programmatic regulations to identify and serve the national purpose. That is part of the problem here. The national purpose is not some hierarchal congressional or Federal Government vision of what ought to be. The national purpose, I think, is what the people in Jersey City think it is and what the people in Fresno think it is. And what the people in Denver and Detroit think that it is.

And so the Federal Government, seems to me, serves the national purpose by trusting the local representatives and trusting the people back there and returning their money with as little red-tape and as little administration costs taken from the Federal level.

So I would say, first of all, general revenue sharing solves a lot of problems for me in Fresno.

Mr. RADANOVICH. I have to cut you off. We have to go and vote. We will recess for 15 minutes and, Mr. Herger, if you could return briefly, we will allow you to continue your line of questioning, if you would like.

Mr. BROWDER. Mr. Chairman, I am not going to tie up the committee's time, but I wish the witnesses would stay. I would like to ask them a question before I go vote. I will ask them off the record if you would like.

Gentleman, I have heard your questions and I apologize for not being here earlier, but a question I have has been running around in my mind. I am against unfunded mandates generally. I know we have to do it sometimes, but we are talking about the national interests and the problem of having the money brought out by the national government and then sent back, a portion of it, for the general revenue sharing.

What do you think about the idea of us killing the unfunded mandates, killing the mandates, killing the funding? You know, we have got a shortfall up here. Just killing the whole—the mandates and saying it is your problem. You raise the money and you pay for it. No general revenue sharing. No nothing.

Mr. SCHUNDLER. I would accept that in a flash if you would drop your tax rates and so forth.

Mr. BROWDER. It is not going to be dropped. We are spending more money now than we take. Some of it may be dropped, but we can't say drop it because we have to pay for what we are doing. Now, that is really national that we are not doing now.

Mr. SCHUNDLER. If the question is how do we respond to the notion that you will just kill the funding period? That you will con-

tinue to take—well, if you are going to take the money, and then you, and nothing is going to come back, obviously we are all dead.

But if you cut the taxation so that we can raise the revenues at the local or State level, that is the best of all. For instance, there is no way that Jersey City could survive on property taxes. That is readily acknowledged, but the way the income tax system works is that it takes a disproportionately high amount from the high-income areas. That is not always factored into the way that money gets sent back to States, so we have a very high-cost State. That is not factored into the equations when the money comes back.

As a result, New Jersey gets fewer dollars back than any other State in the Nation. If you just cut the tax rates here and in New Jersey, they then pick up the cost of providing the programs for the poor and so forth, we could, I think, have a much more equitable situation.

Mr. BROWDER. If we could agree on some equitable cut of the Federal tax rate and then just said forget the rest of it, you take care of it, you would be willing to do that without us sending money back to you?

Mr. SCHUNDLER. Absolutely. One of the best ways to do that is if you establish a Federal tax credit for State taxes raised. Every State would raise the money. You would not have to worry about them underfunding programs or social needs that you may feel is very important.

Mr. BROWDER. I don't think we could come up to a perfect arrangement on that, but we have to start thinking on those terms. We can't just say we are going to cancel the national interest in what happens locally. But I think it is also unrealistic to say that we are going to keep sending the money back if you are going to accept responsibility for those things. We can't be collecting your money for you and sending it back to you is what I am saying. I think we have to start rethinking how we are going to do those things.

Mr. PATTERSON. I would like to know does that mean things like the fact that I have got a closed garbage dump in the city of Fresno that is on the Superfund list right now, \$2 of every ratepayer, \$2 of their monthly bill goes into the requirement that the Federal Government has required that we clean, you know, the Superfund site. The fact remains that we dump garbage according to the law.

And now, a Congress comes along and says, wait a minute, ignore the whole principle of ex post facto and decides they are going to impose cleanup costs upon the residents of the city of Fresno, many of whom had absolutely nothing to do with the dumping in the first place or if they did, their ancestors did it according to the law. If you are talking about getting us off the Superfund list, amen to that. That is the kind of unfunded mandate that needs to be taken away. And with taking away that unfunded requirement, you take away the \$2 and \$3 that are having to be charged that I don't think would necessarily have to be there.

And my question also becomes are you willing to talk about rolling back—I am not suggesting that you roll back clean water standards to nothing, but go back and look at what the standards were in the mid-80's or so and ask the question, how much cleaner water did we really buy for that \$50 million worth of charcoal fil-

tration in Fresno? Deal with those hard-dollar questions and I think a lot of us would be happy.

Mr. BROWDER. I think we are going to have to ask those hard questions and deal with those, but I am a little concerned—as much as I am against unfunded mandates, I am also against us being the tax collector for the local government. I think we have to start sorting those things out. Thank you, Mr. Chairman.

[Recess.]

Mr. RADANOVICH. OK. We are back in session.

Mr. Hoekstra.

Mr. HOEKSTRA. Thank you. It is good to see you again, Mayor Schundler, and it is nice to meet you, Mayor Patterson. A couple of questions for you. I had some outlined and then Mayor Patterson, you raised my interest in another one. You said let's go right back to straight revenue sharing.

If we did that and took all the programs, we put them on a sheet of paper and added up the dollars that came back to the community, and it came out to X, what percentage of X would you take if we said no rules and regulation. You are getting it in a lump sum and we said instead of getting X you are going to get 75 percent of X, what is a fair tradeoff for you?

Mr. PATTERSON. In my testimony, I cited comments made to me before I left by my city manager based on that singular assumption, and his estimates are that a 20-percent cut free of the regulations that just returned to the city of Fresno is something that would result in a net increase in our ability to do the job on the local level. So I think you can have your cake and eat it, too.

Mr. SCHUNDLER. You know, it is hard. Obviously, these are very sophisticated calculations if you wanted to do it on a basis that justified by numbers. But one of the things to look at is look at the percentage of CDBG dollars which are allowable for administration, which is a fairly significant percentage. Before Representative Sabo was saying give me one example of the fact that so little money gets to the targeted beneficiary. One of the examples is that the Federal Government says you can take 15 percent for administration and that is you at the end of the food chain.

There is no doubt that if we had the money, and we didn't have to do so much paperwork and didn't have to restrict the way you use it so dramatically, you could use it much more effectively. I go back to what I said. I think some of the programs that we have are outright harmful. And some of these are not necessarily things that we have any control over.

I cannot not have welfare in my city. I honestly believe that the way it is constructed is hurting people. So even \$1 given to me in a way that would be more constructive would be better than what we have today.

Mr. HOEKSTRA. That was going to be the followup on that. If you said 80 percent would be acceptable, but at the same time you would be getting 80 percent of the money, but you would have total latitude on focusing on those things that are most important to Jersey City or to Fresno, which might be significantly different than the dollars that you are getting for Washington which may not, if you sat down in a planning session, might not be the top two or three things on your priority list.

Mr. SCHUNDLER. Jersey City is having tremendous financial problems. It was effectively broke when I was elected and we are still on the verge. We cannot raise that through property taxes. We have a very, very low income, very densely populated city and very little property value.

If I go bankrupt tomorrow because I just can't make it with my essentials that I have to provide like police and fire, all my Federal programs are still going to be fully funded and they are programs where if they disappear tomorrow, we would not miss them so much.

What the citizens of Jersey City really want is safe and clean streets, schools, and recreation. These are things that we provide and yet we are trying to figure out if we can stay solvent. You are going to take all of this income tax away from folks and you are going to say you have to spend it this way, and yet that is not the critical stuff to keep us afloat and provide the basic minimum services essential for our city to live.

Mr. HOEKSTRA. A couple of other questions. We ran a couple of hearings on the Education Economic Opportunity Committee. I chair an oversight committee. And we have done two pretty interesting hearings. One is where we brought in all the different social agencies and social programs from San Diego and actually went around and started signing up for the different programs and found out that if you go to certain agencies, it makes sense to say you are married.

In another area, you qualify for programs if you are not or your spouse is gone and you haven't seen them for a while. And it is just a whole set of conflicting demands and a huge paperwork mess, which I think reinforces what you guys have talked about today.

The thing in your testimony, Mayor Patterson, you talked about the 30 feet of rules and regulations. How often do you guys get trapped in if I meet the criteria for this program, wow, I may break the rules and regulations for another set of rules and guidelines? Do you find that to be a problem?

Mr. PATTERSON. I cited the million dollars that we got in the last crime bill. It came with a lot of stipulations that we had to have Federal—other kinds of Federal law enforcement involved. DEA agents, FBI people, maybe ATF folks.

I facetiously said to the chief, why don't you just take a DEA agent or an ATF agent and throw him in the back seat of the car and go do what you want to anyway? It is not so facetious. It so constrained our ability to police our streets in the way that the people of Fresno were demanding that the 11 police officers we received, yes, they are helpful. I am glad we have them, but we could have used—we would like to use them in different ways.

And so I am caught in this terrible dilemma. Do it your way or be rejected. That is a horrible dilemma to put the people of Fresno in and that is what the regulations did.

Mr. SCHUNDLER. Let me give you an example on that same issue of the police. We have a big crime problem. And so it is very hard to say I want no money. I want to put more cops on my street. I don't know, I think if I am creative and continue to do privatization and stretch our dollars, we may just not go bankrupt. But that is

not a gimme. The city is in bad shape and we are working hard and making progress, but it is tough.

One of the things that is most expensive and this is the case for cities all over America, 85 percent of our spending is police and fire—85 percent of our spending is police and fire.

If I want to actually downsize my police force because I just am getting too close to the edge, I am going to lose all that Federal money because I am required to not—they come in and say this is the level you were at on this date. You have to add people on top of that to get this money. And if I go and say I have to downsize my police department, I am going to lose all of that Federal money.

So what happens is I have to either say—you can imagine the hew and outcry when they say here is the money we have, give it to you, but I know if I actually cut back to give us more breathing room financially, tomorrow I am going to lose all of those cops. If you gave me that money, it would help me have police on my streets and stay solvent if I was able to get it without any of those strings attached.

Mr. HOEKSTRA. We don't treat a city like Jersey City, which is in a much different point in its life cycle, we don't treat you any different than—I am assuming Fresno is a more prosperous area. I am not sure. But we must have different rules and regulations for the both of you recognizing that the cities are very, very different.

Mr. SCHUNDLER. Yes, you are being facetious.

Mr. PATTERSON. Let me talk about the CDBG requirement which allows the city of Fresno to use up to 15 percent for safety, security, public safety, police officers, and the like. Why? Why is 15 percent a threshold? Why not 10? Why not 20? Why not all of it?

I don't understand the rationale. Obviously, there is a rationale that says we don't want you spending it all on cops. I can understand that. But there may be an associated need at the moment to spend 20 for a while or maybe we spent 13 for a while until we get a little credit for what went before.

It is the stringency of those regulations and the unwillingness of those systems to have waivers or special conditions or what Mayor Schundler talked about was pilot projects for the lack of—some way we have to be rewarded for taking risks and developing new plans rather than reacting only to what the Federal Government determines to be good, "effective policing."

Let me talk briefly about my experience in the private sector with regulations, and it can be done. And I come from the broadcast community. I own radio stations in California. For years, I struggled and fought with Federal Communications Commission regulations. My first radio station required me to file a form for transfer and renewal of the license that thick.

Ronald Reagan was elected President. Chairman Fowler became the Chairman of the Communications Commission; 7 years later, I am sending my license renewal in on a postcard. I check a box. It says, all of that paperwork that you required previously, all of the background stuff about who owns shares in the station and our public file, all those good things that probably should be there for the public interest, all I do is stipulate that they are there.

What happens is if I lie, I am subject to forfeiture of my license. In times past when the bureaucracy oversaw itself, I would be fined or patted on the wrist a bit. There is a significant change in doing business with the FCC today than there was 10 years ago and it has to do with regulation, paperwork, and certain presumptions that are brought to regulation at the Federal level.

I would argue that if you did nothing but take that routine and apply it to CDBG, don't make us fill everything out. File it, keep it on record. And if it is duplicative, allow us to say so. We did it last year. Check the box. But if we mess up, hit us hard.

I am OK with that, because we have benefited as a result of de-regulation and of paperwork reduction and of the associated staff reduction and time necessary to do it. And we could then be transferring that money to more on-the-street kinds of services.

Mr. HOEKSTRA. Thank you. I would like to express my appreciation. I think in Washington you are going to find a sense of people who want to have a dialogue and a partnership with you to cut through all of this and make your life much more enjoyable. Thank you.

Mr. RADANOVICH. Mr. Pomeroy.

Mr. POMEROY. I have a different tack that relates to a specific program that is of great concern to us in North Dakota and that is the low-income heating assistance. This morning, along with Congressman Boehlert of New York, we had a press conference announcing 157 House Members were supporting the Senate position to continue funding for low-income heating assistance.

One of the things that I am concerned about is abruptly pulling the plug will leave mayors in northern climates, probably more than Fresno, with the real situation of people getting their heat turned off in the middle of winter and it won't be Congress that is forced to deal with that. That would be much more an issue addressed at a local level. Do you have any familiarity, mayor, with the low-income heating assistance program?

Mr. SCHUNDLER. Yes, and I don't think you should pull the plug out on something. You want to change one program for another. If you simply say, listen, we know that there is poverty out there, but we don't care. We are going to take away all the safety nets, that is not a good thing to do.

You could say we are going to focus instead of having government provide money for heating and government saying you use this money for this and that and have all of this administrative expense. We are going to focus on every American having a job and we make sure that every American has enough money to pay for all their essentials. And they will benefit if they work harder and if they live in families, there is an economic benefit instead of single.

You frequently end up providing things which are not actually what is most essential for a given individual and you put more power in the hands of the individual American. You make sure that they have the opportunity to work, but they have the opportunity to earn a living and make their own choices about how they live.

Mr. POMEROY. I am really enthused about expanding the opportunity and, in fact, impose the expectation that people work. I will pursue that in a moment. LIHEAP is a locally administered pro-

gram, Federal funds made available for local communities that otherwise are going to be in dire circumstances. Has that been of value to you in Jersey City?

Mr. SCHUNDLER. I want to say again so many of the programs that the Federal Government runs, they are of value in that someone who is low income can benefit by getting heating assistance. That is of benefit to them. There is no doubt about that. I don't think anybody disagrees with that.

The issue is can we help them a lot more than simply giving them the things which—simply giving them things. Can we help them become—get on the ladder of economic opportunity where they can get those things for themselves? I don't want you to pull the rug out. What I do want you to do is redo the whole system so that there is someone who is able to get out of the bed of dependency and walk on their own two feet.

Mr. POMEROY. Sure, I am right with you on that one. Looking at your own city, you have some number, hopefully, a small one I hope, of chronic unemployed. What would be the No. 1 thing that needs to be done to get those people into the work force?

Mr. SCHUNDLER. Given that we have a lot of people with our current school system who are very low skilled and dropped out before mastering basics, the No. 1 thing I would argue that we need is the opportunity to have workfare programs because you do have a minimum wage. Do you have things like unemployment insurance where an employer is going to say if this person works for me for 2 weeks and forces me to fire them for misbehaving, I am going to have to pay them unemployment insurance for 6 months.

Mr. POMEROY. That would only be if you couldn't show cause for termination.

Mr. SCHUNDLER. The reality is that some employees have a pretty good way of getting themselves fired without there being a clear proof that they wanted to get fired. And an employer knows that.

Mr. POMEROY. But to be honest about the perspective we are talking about, people getting employed to be fired so they can collect unemployment is not the overriding issue with the chronically unemployed in your city.

Mr. SCHUNDLER. That may be a small percentage of people, but it is a big inhibition to businesses to hire people.

Mr. POMEROY. I think it is wrong. I think we ought to do something, but I am trying to get at your answer for the chronically unemployed. I thought you were going toward—

Mr. SCHUNDLER. Workfare.

Mr. POMEROY. That provides job skills and training and education or workfare that lets people slug in an hour of time and get a \$4.25 return?

Mr. SCHUNDLER. That is not what I want. I believe that because there are inhibitions for employing people, there has to be workfare. And how can we have that workfare be effective? You don't want a government make-work job. So what I would argue is that we use the money that is block granted that was a welfare check and now becomes a paycheck at the local level, we want to create our neighborhood improvement districts.

You can think of a condominium association as a management company that provides various services to them. These would be

private management companies paid for by my property tax dollars, but they would then hire the unemployed who would be paid for through Federal block grant moneys so the labor costs would be what is coming through this block grant.

They have no need to take this person. The only reason is because they are competing for the right to provide supplementary public services to the taxpayers. The taxpayers who are ultimately paying the bills, I might add, will fire this private management company if they do not use the private labor optimally to upgrade the quality of life in that community.

You have private market management where they are on the hook to really manage that labor well or they are out. And you, through the Federal block grant money, you would pay a subminimum wage amount.

Mr. POMEROY. You left a piece missing and that is how do we get this individual off of the \$4.25-an-hour job into a career path that leads to self-sufficiency, which is the shared goal that you and I have?

Mr. SCHUNDLER. If you add to the system earned income tax credits, even when they are in that \$4-an-hour job, you can't make enough at \$4-an-hour to live decently and what would happen typically is that we would provide supplementary benefits through a bureaucratic approach which is very expensive.

So a better way to do it would be through an earned income tax credit program or using refundable tax credit which is highlighted in the attachment. That person even when they are in the workfare job, they will be able to make enough to get by. If they take a private sector job at \$5.50 an hour, which is not a high school level job, those earned tax credits would not be taken away, as you read that paper, they are nonmeans tested. They will still have the benefits. They are making more money for taking that higher paying job. They are not penalized—

Mr. POMEROY. Talking about the hard core unemployed in your city, and you began by acknowledging their lack of skills. It would seem like education and training need to fit in the mix somewhere.

Mr. SCHUNDLER. But you have to make them want to take education and training to a destination. What we are talking about with the President's proposal for education and training, as I see it, we are already doing that in New Jersey. People go for 2 years for training and go back on the dole. They don't have a strong incentive to actually use that profitably.

Say someone goes into that for 2 years and gets the training and they are interested in getting the job, but they don't find one. Theoretically, you are going to have that person cut off. This, to me, seems that we are going to force the person to want to learn to develop their skills and they are going to want, because they know after 2 years they are going to be cut off and thrown to the wolves. That may be one way to incentivize them to stay, but not a very good way to protect them if they don't find a job.

But on the other hand, we don't want to be that harsh and cruel, so we will not require them to find a job, in which case you have destroyed the incentive for someone to use the job-training money effectively. If we go out there and say from Day 1 you have to earn the money that you live on and we will give you the money to do

that. And 30 or 40 hours a week leaves a lot of hours to still take courses in the evening. Leaves a lot of time to still take skill development class. Leaves a lot—

Mr. POMEROY. Are you dealing with child care in any way? I know that my time is up. I am not sure that a mother of four has a lot of time after that.

Mr. SCHUNDLER. The workfare jobs that we are talking about, we have a lot of private sector child care centers. Imagine if they had some of their lower staff being paid for through Federal block grants, that would lower their cost of operation and they could decrease their price, making it very affordable.

Since we are such a low-income community, they are already fairly inexpensive so this would make it more inexpensive. A workfare person would be learning skills while working for a Federal child care center and it would be providing inexpensive child care to the community.

Mr. RADANOVICH. When we recessed we were in the middle of Mr. Herger's testimony. Mr. Herger, if you wanted to finish up your question with Mr. Patterson in a short amount of time, if you would like.

Mr. HERGER. I don't know if you would want to add anything more, Mayor Patterson. I think we were talking about the top two regulations or mandates that you would like to see, if you could, done away with. Is there anything more you would like to add?

Mr. PATTERSON. No, I think I—only to the extent that not only these direct costs, to comply with regulations, but the indirect costs of what those regulations really mean in the street and in the paychecks of individuals in my city and cities across the United States. There is a—there is something hidden going on from those in Washington, DC, and it is the requirement to increase the cost of civil—of delivery services by virtue of regulation, whether it is Davis-Bacon or whether it is Clean Water or whatever. And I would argue that we need to be rolling back mandates, not merely freezing them in place. And those would be the kind of mandates I would roll back to a saner, more rational, reasonable moment in our history, when we had the best of both worlds, which was clean water, decent regulations, but reasonable costs associated with them.

If we are going to have to clean up radon in our wells, I will tell you, it will be \$30 million. These proposed radon regulations scare our water department to death. And I will tell you who will pay for it; it is going to be the people who aren't sitting here. They are going to the ones that are knocking on my door saying, how dare you raise our water rates any more. And I am going to have to say, but you don't understand, I have to put charcoal filtration because I am now 0.001 parts per billion DBPC, when I could be 0.01. And 8, 9 years ago, we were adequately supplying water that was safe.

And this is not just me speaking. I am giving you basic, fundamental toxicological information from California State University, Fresno, and the Toxicology Department. They think your science in creating the Clean Water bill, particularly in the last 3 or 4 years, is crazy—far too high a risk, no assessment of the economic impact as it relates to how much more, "clean" has the water become.

And those are the kinds of things we have to start with. They are real, because they are—they affect people's livelihood and their ability to have discretionary income and choose what part of the economy to place that discretionary income.

Mr. HERGER. Thank you very much.

And just to close, I understood you to say that your own scientists out of your own local university are saying that they feel just as safe at the other standards?

Mr. PATTERSON. Yes. Well, what they are saying is, under the standards of 3, 4 years ago, the one-in-a-million risk test and the level of toxicity that has to go into that calculation creates a circumstance—and this is not my testimony; this is the Toxicology Department, given at a Rotary presentation about 4 months ago at which I was present and took a lot of notes—you have to drink 2 liters of that water above the contamination level for 70 years in order to gain the possibility of one more cancer in a population of a million people.

I don't think you can physically ingest two liters every day for 70 years. And yet I have got 35 wells that I could bring back up online right now if I could just go back to the standards of the late 1980's, rather than of the ones that have been imposed here recently. That is a significant cost, with absolutely infinitesimal public benefit. And yet I am having to raise water rates this year probably 25 or 30 percent in order to pay for the remediation of wells that 5 and 6 years ago were operating at standards that were deemed safe.

Mr. HERGER. Thank you. Very helpful.

Thank you, Mr. Chairman.

Mr. RADANOVICH. Thank you.

Mr. Herger—excuse me, Mr. Allard.

Mr. ALLARD. Do you think that the Congress needs to go further in curtailing unfunded mandates. The House of Representatives, you know, has passed some unfunded mandate legislation. Do we need to do more?

Mr. SCHUNDLER. Yes. I think you will hear a chorus of that later, I think, with the Governors also. Stopping unfunded mandates is good. We have also asked for a freeze, I think you have heard some local officials—I am one of them—clamoring for a freeze on even funded mandates, at least a moratorium until such time as we can begin a review of those that already exist and we can begin to roll them back.

But again, that is all well and good, but where you really want to go is toward a wholesale, I would argue, reduction in Federal activity, where you could phase out whole departments. And as I was mentioning to I guess Mr. Pomeroy, you cannot just pull the plug. You have to have something else for people. You can move away from governmentally provided benefits, where government gives things to people, and you can work toward, through a combination of welfare and tax reform, a program which helps people get on their own two feet and take care of their own lives.

That is the real focus that we want to have. And that ultimately is the key to the deficit problem. Because when you are able to ensure that everyone has an incentive to get on their feet and work, you have fewer and fewer people on the dole, and you have less

need for any of those governmental programs, which not only cost a lot of money, but I might add, fund both of my political opponents. You know, I find that I have invited some Members to go with me into my housing projects so we can talk about my tax proposal that is before you, because I find that most Republicans and upper-income people I know like it, but so do the people in my housing projects. And wouldn't it be neat if you could get everybody together and end the class war, and the only people on the other side fighting us are those who are effectively the government employees, saying, no, we want to continue these bureaucratic programs even though they don't work, even though they may actually help people, because they're our jobs?

At least we could get the political divide on the table, and we could realize that it is not one of rich versus poor, it is whether we are going to do what helps the people or whether we are going to protect ourselves as part of the governmental club.

Mr. PATTERSON. Do we need to do more? Yes.

Let me answer, I concur with what the mayor has to say here, but perhaps it goes beyond what is being determined here or inquired about here.

I would argue, you are going to have to deal with the three significant reductions facing you as a Congress. No. 1, you have got to reduce the Federal deficit. If you do not, long-term interest rates continue to stay unacceptably high, perhaps as much as 2 or 3 percent higher than they should be. That simply squelches long-term investment in people and in infrastructure things, and in people to work them. And to create jobs and to fill those jobs, you have got to reduce regulation. Why? Because you have got unacceptably high regulatory costs embedded in the cost of living, garbage, water, sewer costs that are driven both by Federal and State regulations.

And then I think, finally, you have got to be doing some serious capital gains tax reduction. And I know that that is unpopular for some people who think that only rich people benefit from it. Frankly, in Fresno, there are an awful lot of people who own a home or one rental property and they think that that is going to help get their kids through college and the like. I frankly think capital gains reduction is a lower- to middle-income tax benefit as well.

But let's assume for a moment that it isn't, grant the argument for the sake of the argument and say, what would rich people do with the money that they save from reduced capital gains? Only two things: They would put it in investment certificates of some kind, liquid capital or invested capital of some kind that is going to create some kind of return, which means capital available for construction and for jobs and the like; or they are going to spend it on themselves. And let's say that they do the worst possible thing for a liberal, I guess, to decide a rich person ought to do, is to buy something that they want that has got a big price tag associated with it. Let's say it is an 86-foot Hatteras yacht. More power to them, because somebody has got to build the yacht, somebody has got to provision the yacht, somebody has to put the fuel in it, somebody has to captain and crew the yacht.

That is essential capital and job creation that has got to come back into the economy, because frankly we are like—you know, we are like the kid sticking his finger in the dike. The economy has

to grow. Jobs have to be created, not by the government, but by the private sector; and government has got to get out of the way of the private sector creating those jobs. And that means you are going to have to do these three reductions.

You have started, as I said before, a fresh wind. You have started. Keep fighting the good fight. Reduce the deficit, reduce the regulations, reduce particularly taxation upon the creation and the utilization of capital, and you will hire people and you will create jobs and you will have better tax receipts coming in all around—in Fresno, in Jersey City, and here in DC.

Mr. ALLARD. Now let me ask you a somewhat loaded question. Are you looking at treating your constituents and your agencies the same way that you are asking the Congress to treat you?

Mr. PATTERSON. Very good question.

Mr. SCHUNDLER. I will tell you.

Mr. ALLARD. Yes or no?

Mr. SCHUNDLER. No. I will give you an example.

Mr. PATTERSON. We are trying.

Mr. SCHUNDLER. Again, see, things are—we are so much more held accountable by our people at the local level. My spending today is lower than it was 3 years ago in absolute terms. Not adjusted for inflation, in absolute terms. Can you ever imagine the Federal Government reducing spending, ever? Well—

Mr. ALLARD. Well, I agree with you. You are talking about us going to a zero baseline, and we need do that so we simplify our budgeting process. There are a lot of things we could learn from local government and our State legislatures here in the Congress. I just wanted to—for you to keep in mind at least there is one Member of Congress that is trying to look at the total picture of what rules and regulations are doing to local governments, but also I hope that local governments are looking at what their rules and regulations are doing to the citizens and businesses that they are dealing with. I think it is a composite.

Thank you, Mr. Chairman.

Mr. SCHUNDLER. I appreciate that.

Mr. PATTERSON. More than that, I wanted—I believe that there are—I have only been mayor 2 years, OK, I am the new kid on the block here. Just 2 years ago, I said that I believed that it was possible in the city of Fresno to hire additional police officers and not raise taxes. The sitting mayor said it couldn't be done. The sitting city manager said it couldn't be done. The editorial position of the local newspaper said it couldn't be done.

Then, 2 years later, we have done it, 120 police officers on patrol now that were not on patrol, new hires. We have not raised any taxes. And I believe that we could probably even go further in a lot of other decisions that have to be made.

For example, you have got to run local government like you do a business, and when the cost of money is real low, go to the private bond markets, refinance your long-term debt of those 8 and 9 and 10 percent instruments and get the 6 and 7 percent, and you are going save a whole lot of money. We did that a year and a half ago, and I was able to reduce, in the general fund, the obligation by \$3 million. But we only had a window of 90 days to do it in.

You bet you have to hold local government responsible for doing the kinds of things that you are doing up here. But I would argue that the surest way to do that is to grant the resources that you take from us back to the localities, and then put me on the hot seat to use it, because I will tell you, I am in quicker reach of the people than any of you are here. I can't have a cup of coffee in Fresno, in a public place, without being either congratulated or condemned on yesterday's news.

Believe me, if you give us the authority, reduce the redtape, grant us much of the tax money we send to you back, without strings, let us be innovative and risk and even fail at times, I think that 2, 3, 5, and 6 years later we can come here and testify to you that things are better as a result.

Mr. SCHUNDLER. But, Congressman, I want to just very much agree with you.

Mr. RADANOVICH. I am sorry, gentlemen, I think it is time to move on to Mr. Lazio. I think he has got a question here.

Mr. LAZIO. Thank you. I just wanted to say, those of us in the Northeast are very well aware of the great work that Brent Schundler has been doing in Jersey City—very impressed with what you have done; not just what you say, what you have done, leading by example. I appreciate that.

I like very much what I am hearing from Mayor Patterson as well.

I wonder if I could just ask what your thoughts are on public housing. Should we be deregulating? How can we rethink housing policy so that it is rational and it is consistent with human nature and moving people eventually, if possible, if able bodied, off of public housing?

Mr. SCHUNDLER. I will give you, as soon as we are done here, a copy of testimony I was pleased to be able to provide over at the Senate subcommittee on HUD oversight, which was actually just a couple weeks ago, specifically on what we should be doing with HUD.

But my sense, of course, is that in the short—you know, in the short term, the notion of going toward housing vouchers is a good one. But the far better approach, ultimately where we want to get to, is where we focus again on making sure Americans earn enough income to live where they want to and government doesn't have to be a part of the picture at all. That is where, again, I don't think it is that hard to get there.

You know, it is a big change in approach from what we are doing now, but it is not all that complex. Just—you have already passed welfare reform in this body—hopefully, they will in the Senate—and you are block-granting the money to the States. Again, we will be able to use that at the local level to create work fair jobs. But then we have to have tax reform.

I think a combination of Dick Armey's proposal with perhaps a few modifications, as I outlined in the blueprint for economic justice, where you can ensure that a very low-earning American, whether they are in a work fair job or a private sector job, can take advantage of some refundable tax credits that will ensure that anybody who is working can make a living and can live where they want in their own housing.

I might add that the way this proposal works, again there is no penalty for having higher household income. That is the nature of a flat rate. So if you live with another person, let's say a spouse, you know, and you share a rent between two adults, you actually get an economic benefit from marriage. Wouldn't it be neat if the Federal Government gave you an economic benefit for marriage by not penalizing you for having two incomes and sharing a rent, instead of the current marriage penalty where you currently get penalized for marrying?

Mr. PATTERSON. I am getting facetious here, I guess. I would like to see the day when either Mr. Clinton or the next Republican President decides that Jack Kemp is going to return to HUD. Because I believe his ideas have power, and that power is to move people from subsidy to equity, from being users of property to being stewards of property, from moving people from a government hand-out to management and ownership and a stake in the place where they live.

And I think that neighborhood associations, ownership of property—we are experimenting with the Fresno Housing Authority right now in a plan to create housing that will, in fact, be owner occupied by the poorest of the poor, through sweat equity, true partnerships, with Habitat for Humanity. We are right now embarked on a 100-unit, 100-home Habitat for Humanity project in which the city of Fresno took about \$2 million of some of that Federal money and said, we will do streets and roads and curbs and gutters and help you get this project up and going.

We believe that if we continue to create in our larger cities simply places where people use and abuse housing, we will have decay. If we continue, though, to create places where people have pride, safety, a cop on the corner that they know by name, you are going to turn dilapidated housing into fixup, paintup, rehabbed places.

And then do something more than that. Turn them over to the private individuals who live there, work there and keep it clean and safe.

The day that we start transferring ownership of Federal housing to private, entrepreneurial owner-operators in their own neighborhoods, I think is the day we take a quantum leap in moving people toward at least safer, more affordable, and perhaps even a share in the equity. That will be the day, won't it?

Mr. LAZIO. I just want to invite you, as the chairman of the housing committee on the House side, to—either yourself or your housing designee, to participate in the process. We hope to have a rewrite over the next 30 to 45 days that will, I think, affect housing policies for the next generation. So I would love to have you be a part of that process.

Mr. SCHUNDLER. We appreciate the work you are doing. I think—this has been a time of hope, I think, for local officials all over the country, because we have the belief that maybe we can make some progress now, and I can't say that we felt that way too long ago. The hope was, maybe if we sweat blood, we might be able to get a waiver, allow us, if they don't look too carefully, to do things in a way that will work. But now the notion that you can actually, from the get-go, try to set things up constructively is really amazing.

Mr. LAZIO. Thank you.

Mr. RADANOVICH. Thank you, Mr. Lazio.

And Mr. Peterson and Mr. Schundler, I want to thank you very much for taking the effort and time out of your busy schedules to appear before this panel. I happen to think that Mayor Patterson is from one of the best cities in the country. The fact that it is in my district, you know, has nothing to do with that. But thank you very much, and there being no further questions, this hearing will be recessed until 3 o'clock. Thank you.

[Recess.]

Mr. HERGER [presiding]. I would like to welcome everyone and would like, at this time, to call this hearing of the full committee of the House—Committee on the Budget to order. Chairman Kasich will be here in a little while, and I will be filling in for him.

I want to welcome our two distinguished guests, Governors from States who have indeed been experiencing regulation and unfunded mandates, and who have been noted nationally for at least attempting to deal with these. And I want to commend both Governor Tommy Thompson and also my own Governor, Governor Pete Wilson. And Governor Wilson, I understand you have the same problem I did back in 1982, some vocal cord surgery, and so I very much understand your temporary speaking problem.

Governor WILSON. Thank you, Mr. Chairman. As you can hear, I sound a little like "The Godfather." I am temporarily, and by virtue of doctor's orders, two kinds of an oxymoron: a nonspeaking politician, and a nondrinking Irishman. They are both very frustrated.

Mr. HERGER. Thank you.

STATEMENTS OF THE HONORABLE TOMMY THOMPSON, GOVERNOR OF THE STATE OF WISCONSIN; AND THE HONORABLE PETE WILSON, GOVERNOR OF THE STATE OF CALIFORNIA

Mr. HERGER. That, Governor Thompson, if we could go into your testimony, please.

STATEMENT OF THE HONORABLE TOMMY THOMPSON

Governor THOMPSON. Thank you very much, Mr. Chairman.

I would like to first just thank you and Chairman Kasich and the rest of the members of the committee for allowing Governor Wilson and myself to testify here today. I certainly want to compliment the committee for taking on this very important responsibility of helping out not only the country, but the individual States as far as their budgets are concerned. Your energy and commitment to balancing the budget, to me, is very refreshing and long overdue.

When you look around the country, the Governors of the 50 States provide clear examples of how government can provide necessary services and balance the budget at the same time. The experiences of States point out four components that I believe are critical to balancing the Federal budget.

First, of course, is the need for a balanced budget constitutional amendment, something that this committee and the Members of the House have already approved; 49 Governors are required to balance their budgets. My State constitution in Wisconsin requires

me to balance the budget, which I have done for the past 8 years without raising taxes.

With government and human nature being the way they are, I am certain that many States today would not have a balanced budget if it were not required by law. I know that it would be more difficult in Wisconsin to balance the budget without the constitutional requirement. The Federal Government needs that same institutional discipline.

Second is the line-item veto. The buck has got to stop somewhere, and it should be with the President of the United States. I personally have used the veto more than 1,500 times to cut more than a billion dollars in higher spending and taxes, and it has helped me make sure that our budget is balanced in Wisconsin.

The third critical element is a strong economy. Economic growth means more revenue to government for balancing budgets. In Wisconsin, just like in other States, we have cut taxes to help generate new jobs and a stronger economy. We cut the income tax, the capital gains tax, the inheritance tax, and the gift tax. Our economy ignited in Wisconsin, creating nearly half a million jobs. We have created more new manufacturing jobs than any other State, and we are No. 3 in creating new, high-paying construction jobs. So those people that tell you cutting taxes does not stimulate the economy, I hold up Wisconsin as an example that cutting taxes does stimulate the economy.

Our unemployment rate is at the lowest level in 25 years, and we have been below the national average now for 86 consecutive months. That means more revenue for our State treasury, without raising taxes. We cut taxes, as I have indicated, but our revenues increased by 46 percent. And we balanced our budget each and every year.

The fourth clear lesson from the States, I believe, is very simple. You can't balance the budget without controlling spending. As any Governor will tell you, it means making tough choices. It is not easy, but it can be done.

In Wisconsin this year, we submitted a budget that cuts property taxes by \$1 billion, without raising either the sales or income tax rates. We are picking up at the State level two-thirds of the cost of local education, which represents about 16 percent of our entire State budget. To balance the budget, this required real cuts in spending—not just reductions in the rate of increase, but real cuts. And not only has Wisconsin done it, but California and all across the country, we have done it. It is not easy, but it can be done.

I believe the American people want a balanced Federal budget and will support the fiscal discipline necessary in order to achieve it.

Of course, Federal regulations are a constant hurdle for Governors trying to balance budgets and deliver effective government to their citizens. Some regulations, on their face, cost the State and State economies tremendous amounts of money, while others create unnecessary turmoil as State and local officials scramble to meet the letter if not the intent of the regulations. I am submitting to the committee a list of more than 200 Federal requirements placed on the State of Wisconsin by various regulations and mandates from the Federal Government.

Unfunded Federal regulations cost Wisconsin a minimum of \$160 million each and every year, which is the equivalent of our ninth largest tax-supported program. Unfunded Federal regulations cost us more than we spend on welfare payments and more than we spend to operate our entire Department of Natural Resources. And one of the most costly Federal regulations is something that every Governor—including President Clinton when he was just a mere Governor—talks about, and that is the Boren amendment. Because of this Federal regulation, Wisconsin taxpayers have spent more than \$120 million over the past 3 years in higher Medicaid costs.

The Boren amendment was intended to give States more flexibility in controlling Medicaid-related health care costs, but it has accomplished just the opposite. The Boren amendment has opened up States to numerous lawsuits and forced them to pay hospitals and nursing homes higher rates than other Medicaid providers and at rates increasing much higher than inflation. It also forces Wisconsin and other States to maintain extraordinarily complex payment systems and elaborate bureaucratic processes to track the adequacy of payments to hospitals and nursing homes.

The Boren amendment should be part of any new block grant approach to Medicaid, which includes an entitlement to States and allows States to determine reimbursement rates, how and where services are delivered, and what the benefit package will be.

Federal environmental regulations also place an enormous burden on States and local economies, with questionable benefit to the environment. For example, under the Clean Air Act, the southeast corner of Wisconsin is considered a nonattainment area. Last winter, our small businesses in that area were required to begin selling and using reformulated gasoline. Hundreds of people reported illness as a result of the fuel. People's snowmobile engines were ruined and consumers were forced to pay 10 to 15 cents more per gallon.

But studies have shown that polluted air in southeastern Wisconsin comes from all over the country, and some from as far away as Mexico. So there is no assurance that reformulated gasoline in Milwaukee will bring the area into attainment under the Clean Air Act.

Moreover, the one-size-fits-all approach means that a small rural community within the nonattainment area is treated just like an industrial urban area. And it also means that a gas station outside the area can sell regular gasoline at 10 cents cheaper than a gas station a few blocks away, but inside the nonattainment area. To me, it just doesn't make sense.

The employee commute option of the Clean Air Act also imposes costly burdens on States, which could meet the goals of cleaner air through alternative approaches.

In addition to the cost, many Federal regulations simply do not make sense. I have got a couple of examples that I would like to give you. The one-size-fits-all approach of Federal regulation often produces absurd results in their real-world application.

For example—I call this the pink sea gull amendment—Federal regulations prohibit landfills within 10,000 feet of airports out of concern that birds attracted to landfills might fly into the airplanes. Federal officials were alerted to a violation of this regula-

tion in a very rural county up in Wisconsin called Door County, where the county landfill is located within 8,000 feet of the county airport. Door County officials assured the Federal Government that the gulls at the landfill never fly in the direction of the runway. In 10 years, there had never been a problem with birds and airplanes in that area. Moreover, the landfill had recently been honored as the cleanest and the best managed landfill in the State.

Unsuccessful, of course, with the Federal Government, and facing the choice of either moving the landfill or moving the airport, the Door County officials, who are very enterprising, spent \$25,000 to capture 500 sea gulls. They painted them pink in order to prove conclusively that none of them fly in the direction of the airport.

Another example involves wolves—and I know the Congressman from Minnesota is here; it must that be the wolves in Wisconsin are smarter than the wolves from Minnesota, because they want the wolves in Wisconsin to be able to read signs. We have been working for several years to expand from two-lane to four-lane highways. The major north-south highway in northwestern Wisconsin runs 150 miles from Eau Claire to Superior, WI. Because timber wolves reside in the forests of the area, we were required under the Endangered Species Act to determine the feasibility of special wolf crossings, with signs, for the highway. After 2 years of delay, an additional \$1 million in extra cost, it was determined that the timber wolves would not use the special crossings because they could not read the signs. They wouldn't read the signs and therefore would continue crossing wherever they liked.

There are many more examples. Wisconsin loses Federal highway funds because we don't have a mandatory helmet law for motorcycles. Yet our motorcycle safety record is one of the best in the Nation, better than States that have mandatory helmet laws.

We have an innovative tire stockpile reduction program, which the Wisconsin legislature and myself put into play, to use old tires to generate energy. We were able to bring three companies into Wisconsin to dispose of the used tires. Yet Federal law requires us to begin using scrap tire rubber in our asphalt as a way to reduce the stockpiles, which we don't have any more. That means 400 jobs could be lost in three Wisconsin industries that now rely on shredded tires in their manufacturing process. If we fail to comply with this regulation, we will lose \$19 million in Federal aid.

The bottom line of these and the other examples I have submitted is this: Many well-intentioned Federal regulations fail to achieve their desired goal. The one-size-fits-all approach of regulations from Washington fails to fit the realities of different States and communities across the Nation.

My advice to this committee, Mr. Chairman, and to the Congress is, allow us to have flexibility. Replace these regulations with a block grant. Give us broad guidelines, and we will comply with those broad guidelines. Give us the flexibility to do it. Allow States to meet your goals. Set your goals broad enough so that we can meet them without having to paint pink sea gulls and without having wolves to get glasses under Medicaid to read the crossing signs.

Whether it is welfare, Medicaid, the environment, education, transportation, or job training, give us the flexibility to accomplish the goals. Don't prescribe for us the process.

If there is an area that requires national standards and Federal funds, give the States block grants and goals to achieve them; and then let the States design and implement the methods, the procedures and the programs to meet those goals.

With that, Mr. Chairman, I want to thank you again for allowing me to speak and to give you my perspective as Governor of the State of Wisconsin on the rules and regulations affecting our State.

Mr. HERGER. Governor Thompson, thank you very much.

[The prepared statement of Governor Thompson follows:]

PREPARED STATEMENT OF HON. TOMMY G. THOMPSON, GOVERNOR FROM THE STATE OF WISCONSIN

Mr. Chairman, members of the committee, thank you for the opportunity to testify today. I want to compliment you, particularly Congressman Kasich, for your leadership on this very important issue. Your energy and commitment to balancing the budget is refreshing and long-overdue.

When you look around the country, the Governors of the 50 States provide clear examples of how government can provide necessary services and balance the budget at the same time. The experience of the States point out four components that I believe are critical to balancing the Federal budget.

First, is the need for a balanced budget constitutional amendment; 49 Governors are required to balance their budgets. My State constitution requires me to balance the budget—which I have done for the past 8 years. With government and human nature being the way they are, I am certain that many States today would not have balanced budgets if it were not required by law. I know that it would be more difficult in Wisconsin to balance the budget without our constitutional requirement. The Federal Government needs that same institutional discipline.

Second, is the line-item veto. The buck has to stop somewhere, and it should be with the President. I have used the veto more than 1,500 times to cut more than a billion dollars in higher spending and taxes. It is an essential tool for balancing the budget, and I commend you for passing it on a bipartisan basis.

The third critical element is a strong economy. Economic growth means more revenue to government for balancing budgets. In Wisconsin, we cut taxes to help generate new jobs and a stronger economy. We cut the income tax, the capital gains tax, the inheritance tax, and the gift tax. Our economy ignited, creating nearly a half-million new jobs. We've created more new manufacturing jobs than any other State and we're No. 3 in creating new high-paying construction jobs. Our unemployment rate is at the lowest level in 25 years, and we've been below the national average for 86 consecutive months. This means more revenue for our State treasury without raising taxes. We cut taxes, but our revenues increased by 46 percent. And we balanced our budgets.

The fourth clear lesson from the States is very simple: You can't balance the budget without controlling spending. As any Governor will tell you, it means making tough choices. It's not easy, but it can be done. In Wisconsin this year, I submitted a budget that cuts property taxes by \$1 billion without raising sales or income tax rates. We're picking up at the State level two-thirds of the cost of local education—which represents about 16 percent of our entire State budget. To balance the budget, this required real cuts in spending—not reductions in the rate of increase, but real cuts. The equivalent would be if the Federal Government funded the budgets of 30 States the size of Wisconsin without increasing taxes or using the tax revenues from those States. It's not easy, but it can be done.

I believe the American people want a balanced Federal budget, and will support the fiscal discipline necessary to achieve it.

Of course, Federal regulations are a constant hurdle for Governors trying to balance budgets and deliver effective government to their citizens. Some regulations on their face, cost the States—and State economies—tremendous amounts of money, while others create unnecessary turmoil as State and local officials scramble to meet the letter, if not the intent of the regulations.

I have submitted to the committee a list of more than 200 Federal requirements placed on the State of Wisconsin by various regulations and mandates. Unfunded Federal regulations cost Wisconsin a minimum of \$160 million a year, which is the equivalent of our ninth largest State tax-supported program. Unfunded Federal regulations cost us more than we spend on welfare payments and more than we spend to operate our entire Department of Natural Resources.

One of the most costly Federal regulations is the Boren amendment. Because of this Federal regulation Wisconsin taxpayers have spent more than \$120 million over the past 3 years in higher Medicaid costs. The Boren amendment was intended to give States more flexibility in controlling Medicaid-related health care costs. But it has accomplished just the opposite. The Boren amendment has opened up States to numerous lawsuits and forced them to pay hospitals and nursing homes higher rates than to other Medicaid providers, and at rates increasing much higher than inflation. It also forces Wisconsin and other States to maintain extraordinarily complex payment systems and an elaborate bureaucratic process to track the adequacy of payments to hospitals and nursing homes.

Repeal of the Boren amendment should be part of a new block grant approach to Medicaid which includes an entitlement to States, and allows States to determine reimbursement rates, how and where services are delivered, and what the benefit package will be.

Federal environmental regulations also place an enormous burden on States and local economies, with questionable benefit to the environment.

For example, under the Clean Air Act, the southeast corner of Wisconsin is considered a nonattainment area. Last winter, our small businesses in that area were required to begin selling reformulated gasoline. Hundreds of people reported illnesses as a result of the fuel, people's snowmobile engines were ruined, and consumers were forced to pay 10 to 15 cents more per gallon under the act.

However, studies have shown that most of the polluted air in southeastern Wisconsin flows in from other parts of the country—so there is no assurance that reformulated gasoline in Milwaukee will bring the area into attainment under the Clean Air Act. Moreover, the one-size-fits-all approach means that a small rural community within the nonattainment area is treated just like an industrial urban area. And it also means that a gas station outside the area can sell regular gasoline at 10 to 15 cents a gallon less than a gas station a few blocks away, but inside the nonattainment area. That just doesn't make sense.

The Employee Commute Option of the Clean Air Act also imposes costly burdens on States which could meet the goals of cleaner air through alternative approaches. Businesses in and around Milwaukee, WI, will spend more than \$50 million complying with the program. Yet, we believe we can achieve more substantial emission reductions through alternative State-based initiatives.

In addition to the cost, many Federal regulations simply do not make sense. The one-size-fits-all approach of Federal regulations often produces absurd results in their application.

For example, Federal regulations prohibit landfills within 10,000 feet of airports out of concern that birds attracted to landfills might fly into airplanes. Federal Officials were alerted to a violation of this regulation in Door County, WI, where the county landfill is located within 7,800 feet of the county airport. Door County officials assured the Federal Government that the gulls at this landfill never fly in the direction of the runway—in 10 years, there had never been a bird-related incident. Moreover, the landfill had recently been honored as the cleanest, best managed landfill in the State. Unsuccessful with this approach—and facing the choice of either moving the landfill or moving the airport—Door County officials spent \$23,000 to capture 500 seagulls and paint them pink in order to prove conclusively that none of them fly in the direction of the airport.

Another example involves wolves. We have been working for several years to expand from two lanes to four lanes the major north-south highway in northwestern Wisconsin that runs 150 miles from Eau Claire to Superior, WI. Because timber wolves reside in the forest of the area, we were required under the Endangered Species Act to determine the feasibility of special wolf crossings for the highway. After 2 years of delay and \$1 million in extra costs, it was determined that timber wolves wouldn't use the special crossings, they wouldn't read the signs, they would continue crossing wherever they liked.

There are many more examples:

Wisconsin loses Federal highway funds because we don't have a mandatory helmet law for motorcycles. Yet our motorcycle safety record is one of the best in the Nation—better than States that have mandatory helmet laws; and

We have an innovative tire stockpile reduction program in which Wisconsin companies use old tires to generate energy. Yet Federal law requires us to begin using scrap tire rubber in our asphalt as a way to reduce stockpiles. That means 400 jobs could be lost in three Wisconsin industries that now rely on shredded tires in their manufacturing process. If we fail to comply with the Federal regulation, we will lose \$18.9 million in Federal aid.

The bottom line of these and the other examples I have submitted is this: many well-intentioned Federal regulations fail to achieve their desired goal. The one-size-

fits-all approach of regulations from Washington fails to fit the realities of different States and communities across the Nation. My advice to this committee, Mr. Chairman, and to this Congress, is: repeal the regulations. Replace them with a block grant approach that lets States decide how to meet your goals.

Whether it's welfare, Medicaid, the environment, education, transportation, or job-training, give us the flexibility to accomplish the goals—don't prescribe the process for us. If there is an area that requires national standards and Federal funds, give the States block grants and goals. And then let the States design and implement the methods, procedures, and programs to meet those goals.

Thank you very much.

Mr. HERGER. Now our Governor from California, Mr. Wilson.

STATEMENT OF THE HONORABLE PETE WILSON

Governor WILSON. Thank you, Mr. Chairman.

First, let me commend my colleague who has done an extraordinary job in Wisconsin. And his testimony, I think, has been so on the mark that I can supplement it with some of our own experiences in California. And I also might like to make some additional observations on the subject of mandates and regulations and waivers. Before I do so, in the interest of your time and to spare you this voice, let me just talk about what we have done in California to cut spending.

In the fall of 1990, in the year that I first ran for Governor, the independent Commission on State Finance estimated that California's general fund budget would grow from \$40.6 billion in 1990 to almost \$60 billion this year. Obviously, that kind of spending growth threatened to bankrupt our State.

This graph represents what actually has occurred, that is, the bottom line, the orange. The purple line represents the forecast. The bottom line is fully one-third less than the projected spending. Now, quite correctly, Governor Thompson points out the difference between slowing the rate of growth and actually making the kind of cut that we have also made. What we did, frankly, was to reduce spending year after year in real dollars, in absolute dollars.

This second chart shows you that in 1991–1992 our revenues were \$42 billion, our expenditures were \$43.3 billion. The reverse has occurred in the current fiscal year. We have revenues of \$42.4 billion, and have actually cut, as you will notice, the spending from \$43.3 billion in that first year, down to \$41.7 billion. It is a million—it is \$1.6 billion less than in that first year.

We did that by putting government on a crash diet. We reduced our ratio of State employees to population to the lowest, we believe, of any State in the Nation. And we did so even with dramatically expanding welfare and Medi-Cal caseloads, and with an expanding prison population. And in fact, we cut virtually everything except education, K through 12, and public safety. And the modest investment in preventive programs for children that have been begun in my administration. So the result is, as that first chart indicated, our general fund spending is fully \$18 billion or nearly one-third less than was projected.

I might say that we accomplished all this with heavy Democratic majorities in both houses of the legislature, and I give them the credit that they deserve. Your colleague, Congresswoman Roybal-Allard, was there as part of the Democratic majority, and when faced with hard, cold reality, they acted very responsibly and, if reluctantly, they agreed to vote for spending cuts, which I am sure

they did not enjoy and had never dreamed they would vote for. But I think it is proof that the shrinking of the size of government is and can be a bipartisan operation.

This year we are actually going to run a budget surplus, which will allow us to offer the kind of tax cut which California needs, both in fairness to people whom I believe to be overtaxed and also to make the State as competitive as it deserves to be. We have proposed a 15 percent, cut across the board, in personal income tax and bank and corporation tax, to be phased in over 3 years. I will not dwell on this at greater length, but I will give you some idea.

This chart shows you what has occurred in terms of the growth of programs, specific programs. Medi-Cal is the most rapidly growing, it is the top, or the white, line on that graph. The AFDC program is the light gray, which is just beneath Medi-Cal. Public assistance, as you can see, has been the most rapidly growing, or at least it is the highest. The most rapidly growing, actually, has been the prison population; that is the medium gray. And then the dark gray represents education.

But all of those, as you can see, with the exception of the State population, which is the second line from the bottom, these programs are growing far more rapidly than the population

Spending is the very bottom line. The black line. That represents general fund spending.

What we have done is to freeze COLA's on entitlement spending. We have had to cut the cash grant for welfare recipients. We have negotiated a very hard bargain on Medicaid, which we call Medi-Cal. I think we rank 48th out of the 50 States in terms of the amount of per capita spending on Medicaid because we have driven a very hard bargain with the providers, with the doctors, with the hospitals, with the suppliers of drugs.

We are also concerned, necessarily, with the costs imposed by mandates, funded and unfunded. And I congratulate the 104th Congress on the Contract. One of the first things that both houses has done is to pass a much- and long-needed reform. One in which Governor Thompson and I and other members of the National Governors' Association have been pleading for years, and that is reform of the abusive mandates, both funded and unfunded. It isn't just those that are unfunded.

The most egregious example I can think of, one that involves both funded and unfunded mandates, has to do with illegal immigration.

You can see in this chart what the costs have been. They have been exploding in California. If you can't quite make it out, there is a gradual stair-step increase from 1988 to the present time. On the left is health care. That has been the most rapidly growing. It has grown from \$21 million to \$414 million from 1988-89 to 1995-96. The middle portion, the green bars, represent incarceration. One in every five inmates in our prison system is an illegal immigrant. That cost has risen from \$122 million to over half a billion.

Education, where we have 350,000-plus children who are illegally in the country, has increased our spending from \$822 million for that purpose to \$1.7 billion. When you amortize capital costs, retirement costs for teachers and prison guards, the capital costs of schools and prisons and we have a sufficient illegal immigrant pris-

on population to fill eight prisons to design capacity, you can see how it is costing my State almost \$3 billion a year. This is simply not fair, particularly when this is exclusively a Federal responsibility.

And let me just say a word about some additional regulations. We are talking about regulations which, all Governors in all States would have to agree, micromanage. They require too frequent, too lengthy, too detailed reporting and monitoring. They cost a great deal of money. We have got some 2,000 employees in State government in one department who are simply complying with Federal regulations that relate to employment programs.

We have managed to reduce the ratio of employees to population to the lowest it has been in almost 30 years. And it is now, we think, the lowest in the country, but we are still required to have more people than would be required to comply with reporting and monitoring requirements of Federal regulations.

You will hear from Governor Thompson, from me, from Governors, Democrats as well as Republicans, that we think that we can actually manage certain programs, even the more sensitive ones, welfare, Medi-Cal, with less money, provided that we are given the authority to determine eligibility, coverage, and benefit levels, the method of providing service. For example, managed care as opposed to fee-for-service, and the authority to negotiate price, and all of these things without being required to submit and obtain Federal waivers. I cannot tell you what a bone in the throat the waiver process is. It is clearly, though, one of the most predictable and deplorable consequences of regulatory excess of the kind that focuses on process rather than result.

What we are saying is: give us the responsibility. Give us the flexibility to manage. Hold us responsible and condition continued funding on the result, but do not prescribe how we are to obtain the result. If you can give us full authority, full flexibility to manage, we can handle even a reduced block grant within reason.

And one of the worst things about waivers is that they breed lawsuits. Even when a waiver is granted, it almost inevitably is challenged in court. And that at a minimum involves time and money and involved serious delay. In the case of welfare reforms and one where we have sought to reduce the cash grant below the level that was required under the 1988 maintenance-of-efforts requirements, we have been held up by a lawsuit.

The Ninth Circuit has said that the Secretary of this administration must validate a prior waiver by the Bush administration. They have failed for 10 months to do so. It is holding up action on other kinds of reforms and costing us \$11 million per month. For God's sake, free us from this nonsense.

I think you have to vote. Thank you very much, gentlemen.

[The prepared statement of Mr. Wilson follows:]

PREPARED STATEMENT OF HON. PETE WILSON, GOVERNOR FROM THE STATE OF CALIFORNIA

Mr. Chairman and members of the committee, thank you for this opportunity to testify as you begin the most critical issue facing government today: How we can reclaim our children's future by ending years of overspending by the Federal Government.

I applaud you and the new Congress for having the courage to face that task.

As a former Member of the Congress, I know how tough it will be.

As the Governor of America's largest State, which faced a similar crisis, I'm convinced that this challenge can—indeed it must—be met.

And I believe I speak for all of the Nation's Governors, when I say that we stand ready to help you achieve this goal.

Together, we can restore financial health and fiscal responsibility to our government:

If, we enlist the American people in this task, and appeal to their fundamental sense of right and wrong;

If, we end the unfairness and absurdities that waste Federal resources entrusted us by hard-working taxpayers; and

If, we unleash the creativity and innovation of our State governments through a fundamentally new relationship between them and Washington.

As the Governor of America's largest State, I, for one, am willing to help you balance the budget by accepting fewer resources from Washington, even for those programs that most directly affect my State.

But I do so only under one condition—only if you first free us from the burden of Federal mandates and micromanaging regulations that tie the hands of those of us in statehouses.

If you give us true flexibility, I believe we can actually do more with less.

That'll require a fundamental change in the relationship between Washington and the States, but that must be accomplished as part of any successful budget. Among other changes, it means the States must be relieved of the onerous and needless requirement to obtain waivers, that is, Federal bureaucratic approval for any State innovation or program innovation. But more on that later.

First, you have asked: How to reduce and control government spending.

My first year as Governor of California, we faced a budget deficit totaling over \$14 billion, nearly a third of our State general fund budget. We had projected deficits and red ink as far as the eye could see.

California's Constitution did not and does not permit a debate on whether it is wiser to balance the budget in 5 years or 7. We had to do it in just 1. By the way, I not only approve of that requirement, I commend it to you.

So, we launched dramatic reforms.

We have squeezed all we could out of the bureaucracy—freezing salaries, cutting overhead, and trimming middle-management. We have abolished more than a hundred useless boards and commissions.

But most important: We faced up to the explosive growth in entitlement spending. We froze COLA's. We reduced California's welfare grants, which are now 13 percent lower than when I took office. We launched welfare reforms that demanded personal responsibility from those who get a helping hand from government, and we doubled the number of welfare recipients who work.

Our budget reforms were attacked by every big-government constituency in the book. They said I was waging "an attack on the poor" to quote one prominent critic in my own State legislature.

The truth is, what we were waging was an attack on the runaway government spending that was impoverishing the future of every child in California, by jeopardizing our credit and our State's capacity for economic growth and job creation.

In May 1990, the year I first ran for Governor, the independent Commission on State Finance estimated that California's general fund budget would grow from \$40.6 billion in 1990 to \$59.2 billion this year. Spending growth like that threatened to bankrupt my State.

So, we put government on a crash diet. We've reduced our ratio of State employees to population to the lowest of any State in the Nation—and did so even with dramatically expanding welfare and MediCal caseloads and prison population. We cut virtually everything except education (K-12), public safety, and the modest investment in preventive programs for children begun by my administration.

The result: Our general fund spending this year is \$18 billion, or nearly one-third, smaller than projected.

And we didn't just slow the growth in State spending. We reduced spending—not against some projected baseline, but in real terms: 2 years in a row, I signed general fund budgets that were smaller than the budget from the previous year.

And we accomplished all of this with heavy Democratic majorities in both houses of our State legislature. I give them deserved credit. When faced with hard, cold reality, they responsibly, if reluctantly, agreed to spending cuts they had never dreamed they'd vote for. I think it's proof that shrinking the size of government can be accomplished with bipartisan support. Indeed, it has to be when passage of the budget requires a two-thirds vote in both houses and the Republicans are a minority in both.

This year, we'll actually run a budget surplus that allows me to propose spurring economic growth in California by cutting taxes by 15 percent across-the-board for every business and individual taxpayer in our State, over the next 3 years.

A group of economists from the Hoover Institution at Stanford University—led by former Secretary of State, former Secretary of the Treasury, and former Director of OMB George Shultz—examined what would happen if Washington had shown the same type of budget discipline as California during the past 4 years. They found that if Washington had just kept spending flat—not even reducing it, as we have—Federal revenues would have surpassed Federal expenditures this year, and we'd now have a Federal budget surplus rather than a deficit. (Please see the appendix for the letter containing their analysis.)

What regulations and mandates represent the greatest obstacles to State government?

States around the Nation are bursting with good ideas for reforming everything from welfare to health care that could save the taxpayers money. But the greatest hurdle to our continuing reform in California, and almost every other State in the Nation, are the mandates and dictates handed down from Washington—and the excessive regulations which tie strings to Federal dollars. Too often the mandates substitute Federal for State priorities, subordinating what the States have decided is most important. Too often, the regulatory excess imposes needless delays and costs, and results in requirements that violate common sense and fairness.

No greater example exists than the mandate that both the Congress and the courts have imposed on States to provide services to people who have broken the law in coming to our country.

California, alone, will be forced to spend nearly \$3 billion next year providing services to illegal immigrants, because Federal mandates dictate that we do so. And it will come at the expense of our own needy legal residents and California taxpayers.

All the services which States are required to provide to illegal immigrants together comprise the single most expensive unfunded mandate imposed on my State by the Federal Government. And the sad irony is that it results from Federal failure to perform a duty that the Constitution so clearly defines as exclusively a Federal responsibility.

If the Federal Government did its job of controlling the border, neither State nor Federal taxpayers would be getting stuck with the cost for these services.

Instead, because the Federal Government doesn't foot the bill for this failed policy—because it instead dumps it on the States—it appears to have no incentive to fix the problem.

So, I urge you: Make sure this budget resolution reflects the will of the Congress to secure our border. Eliminate these mandates, relieve the costs on the States, and make the Federal Government accept its constitutional responsibility for illegal immigration.

Another Federal mandate that defies common sense and fairness to taxpayers is the requirement that we provide disability benefits to individuals whose only disability is abusing drugs or alcohol.

The fact that anyone who incapacitates themselves by abuse of drugs or alcohol is rewarded with a monthly check for it, should outrage every hard-working taxpayer in America.

States should be free to make such commonsense reform.

Regulations which micromanage and require too frequent, too lengthy, too detailed monitoring and reporting cause too much money to be spent on compliance with regulations rather than on delivering needed services to people.

Instead, for any block grant funds entrusted to the States, the Federal Government should require results, but not prescribe how those results are to be achieved.

Congress should condition continuation of Federal funding on States achieving the required results. The States can be trusted. And in fact, they can be trusted to achieve better results often for less money—if they are provided full autonomy.

That means the States must be given the authority to determine eligibility; and coverage and benefit levels; and the method of providing service, for example, managed care rather than fee-for-service; and the authority to negotiate price—or set the rate of reimbursement to providers—all without being required to obtain Federal waivers. The waiver process is one of the most predictable and deplorable consequences of regulatory excess which focuses on process rather than result.

Waiting for waivers—that is, for approval from the required Federal agency—wastes time and therefore frequently wastes money because cost-saving reforms cannot be put into effect until the waiver has been granted.

For example, in California we've made changes in welfare to promote work, encourage self-reliance and demand personal responsibility.

The changes have won bipartisan approval in the State legislature. But to get them enacted, we're required to seek a Federal waiver.

We first asked for such a waiver in 1992. But the cumbersome nature of the process, meddling by liberal judges, and a change in administrations has left us still waiting final approval for some of the changes 2½ years later.

And of course, the waivers we do have, are only temporary. They expire in just a few years.

This absurd Federal waiver process should be scrapped and replaced with a system that gives States the full flexibility we need to make whatever programmatic change or innovation we think wise. The sole Federal concern and requirement should be the effectiveness of State efforts.

The opponents of reform say States can't be trusted to make those decisions.

But why should our compassion be questioned simply because we don't live inside the beltway?

As long as the Federal Government requires us to provide benefits to drug addicts and illegal immigrants, you can be sure the voters will have no faith in the Federal Government's ability to make those decisions.

We Republicans have been accused of lacking compassion for our Nation's poor and the welfare of our children. But the fact is, it's needlessly cumbersome Federal laws and regulations that result in spending tax dollars that should be spent for health care for children.

In California, we have about 600,000 children 5 years of age and younger who live in poor working families that can't afford health care. We want to do something to help them and have identified \$100 million in our State budget to do so.

If we expanded services through the Federal Medicaid system, it would cost California more than twice as much—more than \$200 million in State funds.

Because we only have \$100 million available, participating in the traditional Federal Medicaid program would mean that half the children in need would go without coverage.

Instead, we've structured a program, outside the Medicaid system, that provides for the children's major medical needs and does so at half the cost to both State and Federal taxpayers.

Why will it cost so much less? In part, because we're tailoring benefits more specifically to the health care needs of young children, but the largest savings comes in administrative cost. The State can administer our proposed children's health program for less than one-quarter the cost of the Federal Government's administration of Medicaid.

So, to help all 600,000 poor California children get the health care they need, we're forced to side-step the existing federal health care system.

The Federal Government should be making it easier, not harder for us to help people in need and control our budgets.

If you free us from mandates across the board—in Medicaid, AFDC, SSI—we will do more with less, not only improving the quality of life for our own citizens, but helping you balance the Federal budget. And as you fashion block grants for the States, I ask you not only to ensure that they truly are free of Federal strings, but also that they reflect the different realities faced by the different States.

Everyone is going to have to play a role in getting our Nation's fiscal house in order. The new Republican Congress gives us an historic opportunity to do it. Republican Governors are ready to help you achieve it.

And if there is one thing which almost 220 years of American history has proven, it is this: Working together, with the will and the determination which made this country great, there is nothing that Americans cannot do.

Thank you for the opportunity to testify today. And now, I'd be happy to answer any questions.

HOOVER INSTITUTION ON WAR, REVOLUTION AND PEACE,
Stanford, CA, April 28, 1995.

Gov. PETE WILSON,
Office of the Governor, State Capitol, Sacramento, CA

DEAR GOVERNOR WILSON: If the Federal Government had exercised the same tough control on Federal spending over the last 4 years as you did in California, the Federal budget would now be in surplus instead of having a large and growing deficit. As you recall the horrendous fiscal situation you inherited in 1991, the State was faced with a projected deficit of about 25 percent of State spending, an amount that would be comparable to a \$385 billion deficit in today's Federal budget. Just as you were elected, the independent Commission on State Finances forecast State general fund spending would rise 51 percent by the 1995-96 fiscal year. Faced with out-of-control autopilot spending and a unprecedented deficit, your steady tough fis-

cal control reduced State spending 3.7 percent from fiscal year 1991-92 levels, not just from some hypothetical inflated baseline. It also produced a balanced operating budget the following year, and an operating budget surplus last year. As far as we know such fiscal discipline is unprecedented at the State or Federal level in recent times.

There are obviously differences between the Federal budget and any State budget, but we believe the overall fiscal situation you inherited in 1991 was relatively even more difficult than the current Federal budget situation. The relative size of the State's projected deficit was twice as large as the Federal deficit and independent projections of the growth of spending were more than twice as large in percentage terms.

The Federal Government is projected to run deficits approaching \$300 billion by 2002, the year the budget is supposed to be balanced under a balanced budget amendment. In the meantime, over \$1½ trillion will be added to the national debt. Cumulative Federal spending over this period will be over \$15 trillion. Contrary to the way the issue is usually described in the media, a glide path to a balanced budget in 2002 would still allow cumulative spending to rise by \$2.5 trillion relative to spending being kept flat at current levels. We do not suggest that will be easy. But we do believe the same kind of tough fiscal management you have provided California not only can be, but desperately needs to be, applied at the national level to finally get the Federal Government's financial house in order.

Sincerely yours,

GEORGE P. SHULTZ,
Distinguished Fellow.

MICHAEL J. BOSKIN,
Senior Fellow.

MARTIN ANDERSON,
Senior Fellow.

P.S.—The data from which the calculations above were derived are attached.

DATA APPENDIX*

Here are the factual numbers from which we conclude that if the same tough fiscal discipline you applied to California had been applied to the Federal Government, that the Federal budget would be balanced today. There are two types of calculations. First, comparing State general fund—the bulk of State spending, the part of the budget over which you have most direct control, and the point of reference that is generally used by those studying the California budget—was \$43.3 billion in fiscal year 1991-92. This fiscal year is on target at its projected level of \$41.7 billion, a 3.7-percent cut from the 1991-92 level. The projection for fiscal year 1995-96, which starts July 1, 1995, is for general fund spending to remain flat at \$41.7 billion. Thus, if we do the comparison looking just at the general fund, it has been cut 3.7 percent in nominal dollar terms.

Alternatively, one could look at total State spending, including the special funds over which you have much less direct influence. In fiscal year 1991-92, total State spending was \$54.5 billion and this year it is on course to meet its projection of \$54.0 billion, a cut of about 1 percent. Total spending is projected to be \$55.5 billion next fiscal year reflecting a modest increase in special fund spending. This would result in total State spending being about 1.9 percent higher over that 5-year period in nominal dollars, still a substantial cut in inflation-adjusted dollars.

Turning to the Federal Government budget, the relevant numbers are as follows: total outlays in fiscal year 1991-92 were \$1.381 trillion. Total receipts in fiscal year 1996 are estimated at \$1.415 trillion. Hence, if total Federal spending had been flat, cut by the 3.7 percent that you cut the general fund budget, or grown only the 1.9 percent that total State spending is projected to have grown through next fiscal year, total Federal outlays in fiscal year 1995-96 would be less than projected total receipts, that is, the budget would be in small surplus.

If the comparison is made to this fiscal year, total revenues are estimated at \$1.346 billion—this estimate is likely to be revised upward slightly in the administration's mid-session review this summer. Thus, if fiscal year 1992 fiscal outlays had been cut 3.7 percent as you cut State's general fund outlays, the Federal budget would be running a surplus. If it had been cut the 1 percent you had cut total spending, the budget would be approximately balanced. Thus, whether the compari-

*Source: Federal data—Budget of the United States, fiscal year 1996, including Historical Tables. California data—1991-92 and 1992-93 information from "Historical Data Budget Expenditures," July 1994; 1993-94 and 1994-95 information from "Governor's Budget Summary 1995-96."

son is made to the current fiscal year or to projections for next fiscal year, and based on your more direct control of the spending in the general fund, or based on total State budget expenditures, including the special funds, if the same type of budgetary discipline had been applied at the Federal level as you apply at the California State spending, the Federal budget would now be balanced.

Mr. HERGER [presiding]. Thank you, Governor Wilson. Our colleague, Mr. Radanovich has gone to vote. He will be coming back. We will try to continue this. Maybe the Members might go and vote as they will.

I, again, want to recognize both our Governors, Governor Thompson and Governor Wilson. I don't think this can be emphasized enough, the fact that at a time that the Federal Government is merely talking about—I say merely not meaning merely but in comparison to your two States and the leadership of the two of you—is merely talking about reducing the amount of increase and we hear the wailing and the gnashing of teeth here in Washington.

And to be able to look at the examples of your two States, one the largest State in the Nation, one somewhat smaller State, but to show that this can be done at both ends of the scale, that not only can we reduce the amount of increase, but literally reduce in real dollars the amount that is being spent, again, says a great deal to the both of you. And I believe the fact very clearly that this can be done.

So, again, I want to commend you. I feel guilty asking a question of Governor Wilson with your throat, so answer as you feel free. But I guess it is hard to know where to begin, but if you had two or three mandates, Federal mandates on you that you feel we could get along well without, that would help save more dollars so as you could better prioritize as only those who are closest to the problem know how, and I might ask of both of our Governors.

Maybe I will give Governor Wilson's voice a little rest here, but Governor Thompson and then Governor Wilson, what would those couple of mandates be?

Governor THOMPSON. You could ask that of 50 Governors and I bet 49 out of 50 would say get rid of the Boren amendment first. The Boren amendment drives up the health costs, and drags us into court. And I think Democrats and Republicans alike would come to the conclusion that the Boren amendment is the No. 1 rule or regulation that has to be taken care of.

The second one would be the Clean Air Act.

Mr. HERGER. Thank you.

Governor WILSON. Obviously, in California, the chief set of mandates are those that flow from the failure of the Federal Government to secure the border, which they then compound by requiring the States to provide services to illegal immigrants; education, prison, and emergency health care. That, for us, would have to be No. 1.

But second, and I entirely endorse the Boren amendment and the maladministration of the Clean Air Act. We have seen egregious examples of that in California. But let me offer you some others as well. The whole set of mandates that relate to welfare and to Medicaid, they make no sense. We have got a welfare program that discourages work and that discourages the man from remaining in the household. For God's sake, if we are not going to encourage work and encourage marriage, what kind of a program is this?

There are all kinds of things wrong with it. Granted, we have sought waivers to allow people to work without penalty. We have sought the kind of waivers that would discourage teenage pregnancy. We have sought waivers to try to get teenage pregnant girls back into school. We have sought waivers to impose a maximum family grant so that those that are on welfare are not paid more for having more children on welfare.

I would have to tell you that in terms of economic growth, job growth, the Endangered Species Act is a disaster. If it is not reformed, then you should not renew it until it is reformed. There has to be honest science, not political science as the basis for listing. There has to be note taken of the consequences of the listing in terms of the economic consequences. That is not required. No peer review is required. No public hearing is required. And as a result, it is a terrible, terrible dampener on needed economic development and job creation.

One of the things that is a particular bone in the throat to us, in addition is the Federal Fair Labor Standards Act mandates that States conclude their budget process, or if they go over into the next fiscal year, they have to pay—only State employees, not other vendors, not anyone else—in cash.

What if they don't have cash, as typically they don't? And in fact we are under a legal disability if we don't have a budget to make payments. But if we don't pay public employees, we incur a liability under the Federal Fair Labor Standards Act and it is strict liability.

That, frankly, is one of the most outrageous and disgraceful regulations ever enacted by the Federal Government. It is a sop to public employee unions and there is no justification for it. It allows public employees, without having suffered any injury, to rip off the taxpayers.

I will not go on.

Mr. RADANOVICH [presiding]. Thank you, Governor. We had a full house here. I think just as people come back, we will have some more questions. And, again, forgive me if I am asking something that has already been addressed, but would it be fair regarding questioning which type of mandates you would like to see lifted first?

Governor THOMPSON. We just got done answering that.

Mr. RADANOVICH. You did? Let's go on to question No. 2, then.

I think one thing I might ask, and I would like to get comment on from both Governors, there is some concern, I think that we get from State and local governments and some concerns about actually during this devolution process here in Washington that that might not as well go to the States but the States might, in turn, devolve power down to the local levels. And a bit of the concern, that unless that does happen, that we might not see this revolution you are seeing taking place in Washington come to its most and best effort.

Can you address that? It is very difficult for the Federal Government to return control to the local level. We can do our best by giving it to the States and I would like some comment on how you feel that might occur from the State to the local level.

Governor THOMPSON. Personally, I think it is the only way that true Federalism can ever work, if States are willing to do the same thing, and allow more things to take place at the village and town level.

We have allowed the counties to do welfare reform, and we found that that works out extremely well. And that is part of the devolution that you are talking about. I think that most Governors would like to have a sharing concept, not only with the Federal Government but with their local units of government. And I think you can improve the quality of government when you do that.

But it takes some courage to go out and do it. And I think that we are doing it in Wisconsin, and I am confident that other Governors like Governor Wilson are doing it. I think it is proper criticism from the local units of government who are fearful of having to go to the States and then being cut out of the action. And I don't think that is truly what Governors want. Governors want a cooperative effort with local units of government.

Governor WILSON. Mr. Chairman, in order to spare you and myself, let me introduce the State Director of Finance, Russ Gould. I agree with Governor Thompson. We are making efforts to devolve the administration of several programs and I will let Russ tell you about it.

Mr. GOULD. Thank you. We would concur with Governor Thompson. We feel it is essential to move programs and responsibilities down to the local level, where they can be most responsive to the needs of their community. We have learned in California that what works in a community such as San Diego is not necessarily what is going to work in Sacramento or Eureka. We have a diverse State.

In 1991, Governor Wilson provided for a program realignment which provided resources and program responsibility at the local level for programs such as foster care and other children's social service programs. That has been very effective in getting better results for children at risk.

In this year's budget, we are again suggesting a realignment to move more program responsibility along with the resources to local government so they can fashion programs that meet their community needs. As you move programs to the State, we have every interest in joining in a partnership with our local communities so that they have flexibility to address the needs of their community.

Mr. RADANOVICH. And another question, and Governor Thompson you are a champion of welfare reform, on social programs has there been much consideration given to the privatization of those types of programs? Certain increased responsibilities, perhaps tax deductions to charitable groups, nonprofit organizations, that may indeed have more of an impact on successful social service programs than the government could? Is that part of any consideration going on right now?

Governor THOMPSON. I think that is true all over the country. The truth of the matter is, though, that we are pretty much precluded from doing as much as we would like because of the Federal rules and regulations and because of the need to come to Washington to get any kind of waivers whatsoever to deviate from the Federal law.

And as Governor Wilson has indicated, you come to Washington with what you think is a good waiver program, either to contract out for the private sector or to do something at the State level, and in order to accomplish that, you have to come to Washington, kiss somebody's ring, get half of what you ask for, and then go back and you are so restricted that it is impossible to do what you really set out to do.

So I think that your question is very good. We are trying to do that and we would do more if we were able to have the flexibility to accomplish that.

Chairman KASICH [presiding]. I want to, first of all, thank you for taking the time to be here, Governor Wilson and Governor Thompson. The reason I haven't been here, I have this little thing I am working on now, and it is to put something on a piece of paper no one has seen since 1969. We now have it on a piece of paper, and I am now talking beyond the committee about what we are doing, and—

Governor THOMPSON. Congratulations John.

Chairman KASICH. That is why I am here. I will be running out again, but let me just ask you, Governors Wilson and Thompson, we have a list in our possession here that we want you to have and we want you to review and comment on. Let me just review a couple of points.

Unfunded compliance with the Antitrust Act of 1992; metric conversion mandate. Let me read the next one to you. Let me read a couple of them to you, Pete. I want to see your eyes. How about the crumb rubber mandate? How about repealing—how about saying by 1997, the additional costs due to the crumb rubber mandate could be as high as \$1 billion. Section 1038 should be repealed and highway engineers and the marketplace determine highway materials? Do you like that? Would you like that in the report with the budget this time?

How about Federal outdoor advertising mandate? How about highway program administrative costs mandate? Recreational trails mandate? Minimum reflectivity for traffic signs and pavement markings mandate? We figure that you can put the signs up so people can read them and you can mark the highway. I mean, I think you could do that.

Governor Wilson, I have seen you do a lot of things. You are sure that you are going to be able to have a minimum reflectivity for traffic signs? Are you capable of that in California?

Governor WILSON. Mr. Chairman, if we could rebuild the Santa Monica freeway in 64 days, I think we could handle that.

Chairman KASICH. I forgot. You are on the bench when it comes to talking, but not thinking. I know that.

We have a whole list of things here that we want you to go through. And we would like you to figure out which of these suggestions here make really good sense, because we would like to incorporate them somewhere down the line here as we go through.

And I think this is a very good comprehensive list of the things that have been driving you crazy, including repeal of the Boren amendment. Good. You don't have to speak, a picture is worth a thousand words there.

We would clearly like to you examine this list before you leave town and make your recommendations to us and let us know and then not only will we get it in the report, of course, but then we would systematically move to change the law, as we bring the various bills to the floor, we would like to change the law.

As far as I know, this is the first really comprehensive list that I have seen on the Hill that begins to put down in specific terms a number of the things that you are concerned about. Some of them I am not sure I agree with in terms of repealing, but we need your guidance and this is one of the things that we asked you to do when we met starting all the way back in November.

You want to comment, Governor Thompson?

Governor THOMPSON. Yes. First, thank you so very much. Your list here, I just perused it and I notice about six of the items that I mentioned in my testimony are included on here. I congratulate you. I also submitted a book up there that has 200 more rules and regulations that I would hope you would have your staff look at.

So if you have the time, or your staff does, I would hope you would incorporate some of those as well. I would be more than happy to go through this and give you comments, but I can tell you that I would support, I am sure, just about each and every one of them that you put in here.

Chairman KASICH. This isn't a matter, Governor, of having the time. We will make the time and we will review every item in this book.

Governor THOMPSON. Thank you.

Chairman KASICH. George, did you have additional questions?

Mr. RADANOVICH. Yes, actually I do. Thank you, Mr. Chairman.

Government Wilson, you have been a champion of illegal immigration and I am going to turn the tables on this hearing a little bit because I think there is one responsibility that the Federal Government shouldn't be giving up on and that is solving the illegal immigration problems of not only the State of California, but that problem goes from border to border.

And I would like your comment on the need, if there was one increase in budget or one thing that should not be cut, might it not be the funding to combat illegal immigration?

Governor WILSON. You are absolutely right, Congressman, because in fact it is the failure to secure the border by having adequate manpower resources given to the Border Patrol, which has given them "Mission: Impossible." And from that, given the other mandates for education, for emergency health care, and what is in effect an implicit mandate in terms of incarceration of illegal immigrants convicted of a felony. All of those flow from the failure to secure the border.

We should increase, substantially, the funding for the Border Patrol because, frankly, it is a fraction of what the States are annually required to spend in providing services to illegal immigrants.

So—and incidentally, even if those mandates were lifted altogether, you would still have the problem of emergency health care and incarceration. But emergency health care, a doctor who has taken the Hippocratic oath is going to administer medical care to someone who is before him who is bleeding or in labor, but he

shouldn't be stuck for the cost of that nor should his hospital nor should the county taxpayers.

It is the failure of the Federal Government that causes him to take that action. It is exclusively the responsibility of the Federal Government under the Constitution to deal with immigration. And clearly the same thing holds true for those who enter the country illegally and then commit crimes.

Mr. RADANOVICH. Governor, there was satisfaction, I think, in the current crime bill that illegal immigration was adequately addressed for the 1995 budget year?

Governor WILSON. It was a significant improvement, a very significant improvement under the McCollum-Gallegly amendment, and I thank the Members for that. For the first time, really, it looks as though the language offers us some realistic hope that the money will be there to reimburse the States for the costs of the incarceration.

Mr. RADANOVICH. And if we were to go and do any further crime bills and make any cuts, I believe that illegal immigration would probably be the last area of any crime bill that you would want cut.

Governor WILSON. Bless you.

Chairman KASICH. Well, my Croatian friend is leading the witness, is I believe the way that decision would be rendered.

Mr. Sabo.

Mr. SABO. Thank you, Mr. Chairman. And Governors welcome to the committee.

And the issue of the appropriate relationship between Federal and State government, I spent 18 years in prior life worrying about the relationship between State and local government. It is an area that I find always intriguing, also in need of reform. I am not sure in need of revolution.

And there is a fundamental difference because there are things where there is a unique Federal role, other areas where there is a unique State role, other areas where there is a unique local role, and you find ebb and flow in those relationships.

And I think in the years I spent in State government, I was one who was trying to delegate to local units of government and always intrigued by opponents of that who didn't necessarily follow ideological lines.

But Governor Thompson, because your voice is sound, I would like you to elaborate more on the Boren amendment and also just in general where you think we can move in terms of flexibility in Medicaid to make it a more efficient system. Clearly, if we are going to deal with the Federal budget, the part that is escalating the most rapidly is health care cost, whether it is Medicaid or Medicare.

Governor THOMPSON. Congressman, the Boren amendment causes us the problem. Every time the nursing home industry gets a raise and it is not the cost of inflation, they sue us. And then they get going to court and the law is such that the court doesn't have much discretion and we have to comply with it.

And then the hospitals come in and say, well, you gave the nursing homes 5 percent, you only gave us 3.5 percent. If you don't give us 5 percent, then we are going to sue you as well. And then they

get you in a whipsaw situation and you can't win because if you go to court, you are going to lose.

So you artificially inflate your budgets to prevent going to court just because of the Boren amendment. It hangs over you like the Damocles' sword and you can't do anything about it. And so that is the problem with that.

As far as Medicare and Medicaid, there are a lot of things going on in Congress right now regarding grants and caps. And the National Governors' position is, give us the flexibility. And if you put a cap on it, give us the flexibility to develop our own programs.

Mr. SABO. Will you expand on your definition of what flexibility you want?

Governor THOMPSON. Well, the flexibility that I want in Wisconsin is to allow for more managed care, a requirement of AFDC mothers to be in managed care or HMO's. To be able to have the State of Wisconsin to set up our own program outside of the Federal rules and Federal law.

Mr. SABO. I am curious about how it may relate to—

Governor THOMPSON. Minnesota, by the way, has a very good program and they had to get a waiver to accomplish a great deal. And I think States like Minnesota and Wisconsin and California ought to have the opportunity to set up their own program. And give us a block grant. We can do it and do it better and you will be able to save money at the Federal level as well.

Mr. SABO. On Medicaid, the bulk of the expenditures on Medicaid are not acute care but rather long-term care.

Governor THOMPSON. In Wisconsin, we set up a COP program—Community Options Program—which allows people to stay in their own home and not go to a nursing home. We have been able to reduce expenditures quite a bit by doing that. A lot of other States have followed the Wisconsin lead. Once again, you have to get waivers to do these sorts of things.

Mr. SABO. Have you gotten the waivers and what has been the impact on your costs?

Governor THOMPSON. On the COP program? At the beginning, we saved a lot of money, but now we have found out that we have gone from having about 4,500 people under the COP program to about 16,000. And people that are going into the COP program now are the hard-to-take-care-of individuals, and some of those costs are as much as they are in the nursing home. So the savings at the present time are not as much as they were, but overall we have saved millions of dollars by setting up that program.

Mr. SABO. What is the rate of increase in Medicaid in Wisconsin?

Governor THOMPSON. We are the lowest in the country. We are below 4 percent. I think the average is 9 percent. Wisconsin is below 4 percent. This year's budget, we are going to come in at 2.5 percent. That is the lowest in the country.

Mr. SABO. I am just curious as we develop new block grants, we do some grandfathering in looking at the history of State reimbursement. Do you have any advice on how we should deal with the issue of disproportionate share payments to States which have varied immensely. And, frankly, some States very skillfully manipulated the Federal system to get additional dollars.

A couple of years ago I—

Governor THOMPSON. We were not one.

Mr. SABO [continuing]. I looked at Louisiana's numbers for disproportionate share and I came up to the Midwest and added up to Illinois, Wisconsin, Minnesota, Kansas, and Nebraska before I got the equivalent of what Louisiana had received.

Governor THOMPSON. We didn't do as well.

Mr. SABO. No, we didn't. How do we deal with that?

Governor THOMPSON. The disproportionate share was negotiated out with the prior administration, President Bush and the Governors, and it was sort of a give and take kind of an agreement, and it was capped at the expenditure level, I believe, of 1992.

Mr. SABO. I think it is capped as percentage, but some States clearly did much better than others.

Governor THOMPSON. Most States did better than Minnesota and Wisconsin.

Mr. SABO. Right. If we start grandfathering in those, it strikes me as basically unfair.

Governor THOMPSON. Well, if I speak as the Governor of Wisconsin, I would say yes. If I speak as the chairman-elect of the National Governors' Association, I would say, you have to be very careful about that, Congressman.

Mr. SABO. One other quick question. As the welfare bill is moved through the House, it has eliminated some restrictions, but put new ones on States relating to who you can provide benefits for, changing the role and relationship of the Federal Government, not to illegal but to legal immigrants. I am curious what your response is, what your reactions are to some of those new limitations.

Governor THOMPSON. Governor Wilson is the expert on illegal immigrants.

Mr. SABO. Not illegal. This is legal.

Governor THOMPSON. I would have Governor Wilson answer any question dealing with immigrants, because that is a problem for California, much more so than any other State in the country.

Mr. SABO. The legal issue is a different one than the illegal one.

Governor THOMPSON. Yes, sir, I understand that.

Mr. SABO. In Minnesota, we have quite a few, the significant portion of them Southeast Asians who are here because of the Vietnam war.

Governor THOMPSON. We have the same population base in Wisconsin.

Mr. GOULD. We do have a substantial number of legal refugees and other people who have come to this Nation legally but are not citizens. And consistent with how the Governor approached this, we have suggested that the sponsors be held responsible for providing health care or any kind of support service that is necessary for those individuals while they are here.

I think the changes that you have reflected in the House document on welfare reform reinforces that principle that sponsors should be held accountable. I might also add that in terms of the refugee area, where California has the highest proportion of refugees in the Nation, we believe that Congress is effectively the sponsor for refugees. We would hope that Congress would step forward and provide the 36 months of funding that is authorized within ex-

isting Federal law without sufficient appropriations. Congress has forced the States to assume all responsibility.

So we do believe that the current direction you are heading in in terms of making sponsors accountable is a fair one, but we would also encourage the Federal Government to step forward when, in effect, they are the sponsors under the refugee provisions.

Governor THOMPSON. Congressman, in regard to the welfare reform bill, H.R. 4, that passed the House, most Governors support the general theory that the welfare reform system in this country is broken and needs to be replaced. We would like, as Republican Governors at least, and I am speaking as a member of the Republican Governors, we would like to have a block grant without prescriptive language. We think we can do a better job. I know that I can do a better job in Wisconsin and Arne Carlson can do a better job in Minnesota, developing a welfare package completely. And we testified on that, both John Engler and myself, in front of one of the House committees.

Mr. HERGER [presiding]. Thank you.

Congressman Smith of Texas.

Mr. SMITH OF TEXAS. Governor Wilson, I would like to address my questions to you. Before I do, I do want to thank you for being one of the few people in the country willing to give the issue of legal and illegal immigration the high profile that it deserves.

You have been as high profile a spokesperson as anyone in the country and I appreciate your proposals. I read in a Los Angeles Times newspaper article that the year before last, two-thirds of the births in Los Angeles County public hospitals were to illegal aliens. It happens to be 50 percent in El Paso, a city in my home State. And I know you have a high cost of health care up there.

I wanted to go hit all three areas, health care, crime, and education. As far as education goes—and I am not sure about your figures there, not that I question them but I just can't read them from here—it seems to me that education is about half the costs attributed to illegal aliens presently in California. Is that the case?

Governor WILSON. Yes.

Mr. SMITH OF TEXAS. Given the fact that that is half the cost and given your familiarity with the *Plyler* Supreme Court decision, how do you think Congress should proceed when it comes to the cost of education for the children of illegal aliens?

Governor WILSON. First, let me return the compliment, and I appreciate your work here in the Congress. Actually, education is \$1.7 billion as opposed to the combined costs for incarceration and for health care, at about \$900 million. So it is not quite two-thirds.

But there is a bill that has been introduced in the Congress by your colleague, Elton Gallegly, that seeks to relieve the States of the burden imposed by the *Plyler* decision. And it would, in fact, if passed by Congress—I am sure—be challenged in the courts, and I think would probably go very quickly, perhaps, as a matter of original jurisdiction to the Supreme Court.

Mr. SMITH OF TEXAS. So you would leave it up to the States whether or not to assume the burden of the costs or not?

Governor WILSON. Well, under that, they would have the option. It would not be mandated as they are by the *Plyler* decision. My own view is that if it were tested, an act of Congress that lifts that

burden and leaves it to the States would be sustained by the U.S. Supreme Court.

I think if you look at the *Plyler* decision, one of the key features of that decision is that the opinion speaks of "in the absence of any congressional expression."

Mr. SMITH OF TEXAS. OK. Let me go to the subject of criminal aliens. In Texas, unfortunately we lead California in one statistic and that is that 42 percent of our Federal prisoners are foreign born and most of them are illegal aliens and most of them are incarcerated for drug dealing.

Do you know the percentage in California of your Federal prisoners who are foreign born?

Governor WILSON. Yes, sir, it is about 1-in-5. Not quite. About 18 percent.

Mr. SMITH OF TEXAS. That is about the national average. I am surprised it is not more. But for some reason, Texas has more than its share in that regard. I know that you have been a proponent of the Federal Government reimbursing the States for the cost of incarcerating.

What is the total cost of incarcerating illegal aliens in California?

Governor WILSON. It has risen over a period from 1988-89 to the 1995-96 year from \$122 million to \$503 million.

Mr. SMITH OF TEXAS. So the cost of health care, incarceration, and education is \$2 billion, roughly, to California every year?

Governor WILSON. If you add up those, which include amortizing, as I think fairly you must, the costs, the capital costs of new prisons of new schools, if you amortize the retirement costs of prison guards and school teachers, we think that it is almost \$3 billion.

Mr. SMITH OF TEXAS. Governor Wilson, thank you very much. I hate to tax your voice any more. I appreciate your being here today, and again thank you for the leadership on the issue.

Governor WILSON. Thank you, sir.

Mr. HERGER. Thank you.

Congresswoman Woolsey from California will inquire.

Ms. WOOLSEY. Thank you. And thank you, Governors Thompson and Wilson, for coming. I won't tax your voice, Governor Wilson, too much, but I want to express my appreciation for your efforts to secure disaster assistance from the Federal Government, because you know my district, particularly Sonoma County, was severely hit by the floods this year. And I think that the people of the Sixth District are very appreciative of the Federal Government's role in helping out in this crisis. And I thank you for your cooperation in that area.

But during the floods, I couldn't help but hear in my head an expression that you like to use and that is that—correct me if I am not quoting you right, or have your alter voice correct me—saying that California is a proud and sovereign State and it will not be pushed around by a bunch of faceless Federal bureaucrats.

I think that is the essence of what you said many times. And I am wondering, because both you and I know that California is not a sovereign State, because a sovereign State is really defined as completely independent, self-governing nations. And if California were a sovereign State, then the disaster assistance that we re-

ceived from the President would have been foreign aid, and we know it was not that.

So if we hadn't been able to get this foreign aid from our President for our flood damage, how would our State have paid for it? Would you have raised taxes or cut education, child nutrition? How would we have gotten this help, because it was very necessary?

Governor WILSON. Congresswoman Woolsey, I think that the members of the National Governors' Association, Democrats, Independents, and Republicans, would, with all respect, disagree. We think that the 10th amendment recognizes the sovereignty of the States and reserves to the States the powers that are not enumerated as delegated to the Federal Government.

There is no question that there are functions that are exclusively Federal in nature and should be. The national defense, immigration are two of the best examples.

I would argue that it is within the power of Congress to undertake for a kind of national insurance and reinsurance, really using the resources of the private sector in much the way that has been done with regard to specific kinds of disaster for flood, for other kinds of homeowners insurance.

What we have found, I think, is that over a period of time, whether it is the floods in the Midwest or hurricanes which lay waste to South Carolina or Florida or Hawaii or fires and earthquakes in California, all citizens have been afflicted with natural disasters and even in a State as large as California, there has not been a sufficient base for the kind of insurance that I would like to see replace the sort of ad hoc response that is made by FEMA to natural disasters.

Ms. WOOLSEY. Well, thank you, but we did need it and we got it, and I think that we should be appreciative of it.

I have another question that I would like to talk about: the welfare bill that has been passed by the Republicans. I would like both of you to tell me how we would have handled this disaster I talked about, the flooding, in California, and also the earthquake in California when the nutrition programs for our kids were really stressed, because there were so many more that needed that help. And under the Republican welfare plan, these programs will be block granted. They will no longer be entitlements. We would not have had—I doubt that we would have had enough money to cover all of those who needed it.

And I want to know how we are going to do that in the future if we have nutrition programs like this that are stressed when our communities have an emergency or when there is a recession in our economy, how will the States make up the difference? Governor Thompson, could you start and we will let Governor Wilson's voice relax a minute.

Governor THOMPSON. Sure. I sometimes am concerned when I get the feeling that only the people in Washington are the paragons of virtue and have all the wisdom to develop what is good for our individual States.

We have, in Wisconsin, done an excellent job in taking care of child nutrition and child health care. We have taken more people off of welfare than the rest of the 49 States combined. I am very proud of that. And I think that if you would give us a welfare bill

that does not prescribe that we have to do this or that, and give us the flexibility to move Federal dollars and State dollars from one particular program to another, we will be able to meet the needs of our particular States. I know I can in Wisconsin.

I am confident that Governor Wilson can in California and each and every Governor across the country. And you will save money in the process. That is what welfare reform is about. You have to agree, I am sure, that the welfare law as we know it today is broken.

Ms. WOOLSEY. I know it is broken.

Governor THOMPSON. And nobody likes it. And at least H.R. 4 goes in the right direction.

Mr. HERGER. Congressman Shadegg will inquire—Governor Wilson.

Governor WILSON. In California, we have a separate program that relates to disaster assistance. It is not part of welfare. I would have to say that I think welfare itself is a worse disaster than any of the natural ones that we have encountered, because it has been ongoing and it has actually subverted generations of people and trapped them into dependency.

That is a terrible, terrible disservice and we do have to reform it because it is not working. But what I would say is that I don't think that the two actually relate. We are perfectly willing and, in fact, eager to have the responsibility to manage welfare in Wisconsin and in California and in a number of other States. And this is Democratic Governors as well.

Ms. WOOLSEY. So, Governor, if you will yield a moment, my question is, would we have had the finances, would we have been able in the State of California to make up the difference in nutrition programs with the emergencies we have had in our State? Where would that money come from? Is it there or would you have to come to the Federal Government?

Governor WILSON. I don't think that you have heard anybody who is arguing for welfare reform urging you to undo disaster assistance because the two are not really related.

Mr. HERGER. Thank you very much Governors. Our time is passed.

I do know, Governor Thompson, I understand that you need to be leaving at 4:30, in 7 or 8 minutes. So we, again, thank you for your being here.

I might mention at this time that Chairman Kasich did have a meeting with the Speaker on the budget, so he wanted me to ask you to excuse his needing to leave. At this time, we will turn to Congressman Shadegg from Arizona to inquire.

Mr. SHADEGG. Thank you. And with that admonition on the amount of time that you have left, I will keep my question short. I want to take you to a broader picture. We have a challenge before us of fulfilling a pledge we have made to balance the Federal budget by 2002; a rather substantial undertaking.

It seems to me that that dovetails rather well into what we are here about today, regulatory reform. The question I want to put to you is we have had a task force put together a paper. I don't know if you have seen it or have copies of it. It identifies areas where

existing Federal regulations which perhaps could be eliminated would lift a financial burden upon U.S. States.

The introduction to that indicates that from a Federal budgetary standpoint, there is little scoring that can occur. We don't get much credit for that. By the same token, if in the course of reducing the increase in Federal spending we are going to be giving both the State of Wisconsin and the State of California, and all of the other States less Federal funds over the next 7 years than we would otherwise have anticipated giving them or that others advocate that we should give them, it seems to me that there are two sides to that debate.

The internal side is, how do we balance the budget, but the external side, what about the pain that we are creating? What about what we are doing to States? How will programs suffer? And it seems that the States carry a great deal of the burden of that and if you get less dollars in the education arena, or you name it, then that is where you come in and say to us, can we survive?

I would like to—we had testimony earlier today on the issue of corrections. I would like to ask you if either working from this list or working from a list which your separate offices developed or from a list that the Governors Association developed, you could come forward to us and say here are a series of stupid Federal regulations simply unnecessary, or at least those that have poor cost benefit analysis which if you lifted from us at the same time you reduced the Federal budget and you reduced the funds that you are transferring to us, would make a significant advancement in making it enable us to live with fewer funds.

And it seems to me that would allow the States to participate in this process. We can eliminate regulations that are forcing you to spend money that doesn't need to be spent. We will be in better shape. I guess my question is, can you identify such regulations and would you be willing to?

Governor THOMPSON. Congressman, I did that in my testimony, and I will submit the testimony. I also submitted a book with 200 rules and regulations, and I gave it to Congressman Kasich for his review, which includes most of these and a lot more.

The rules and regulations you talk about cost the State of Wisconsin \$165 million each and every year. The Boren amendment alone, since its inception, has cost the State of Wisconsin approximately \$120 to \$125 million. So if you got rid of the Boren amendment and a few other regulations, we would be able to do a much better job of developing our own individual programs. And as I indicated in my testimony, give us some broad guidelines, but give us the flexibility within those guidelines to meet it. And we will be able to, I think, save you money and save the individual States a lot of money.

Mr. SHADEGG. And engage in the debate over the merits for the purposes of balancing the budget?

Governor THOMPSON. Absolutely.

Mr. SHADEGG. Governor Wilson.

Governor WILSON. You will find some in my testimony, too, and you will also find some in the record. Someone preceding you, Congressman Shadegg, asked the same question. They said, pick out the three that you feel most intensely about.

It was difficult to do that. There are many that we feel intensely about. But if you are interested in that—this list, by the way, which I have just glanced at, I would say most of these things, the world can live without. And they would save a great deal of time and money if we lowered our State budgets. More importantly, it would eliminate some of the costs and delays that are translated into increased costs for private sector employers who are seeking to be competitive.

Mr. SHADEGG. Could you provide also a ranking of reasonableness or silliness; that is, the degree to which those are totally out of line?

Governor WILSON. We would be happy to do that.

Mr. SHADEGG. Thank you.

Mr. HERGER. Thank you very much. Congresswoman Roybal-Allard will inquire next.

Ms. ROYBAL-ALLARD. Thank you, Mr. Chairman, and welcome, Governor. We are going to have to be going for a vote in just a few minutes, so before I ask a question, I would like to say one thing with regard to the illegal immigration issue.

I agree with you 100 percent, that we need to deal with illegal immigration, that it is a Federal responsibility and that the Federal Government has to own up to that responsibility. I guess where I get concerned is that many times the facts that are presented and the line of questioning give the impression that illegal immigrants are primarily prisoners and drug dealers. The emphasis has been solely on questions dealing with their being in prison. In terms of the costs of the undocumented, there is very little, if anything, mentioned with regard to their contributions in terms of taxes paid and other ways they contribute to stimulating the economy by purchasing American products.

So in fairness, I think that as we deal with the problems of the undocumented, we also have to balance the discussion and make sure that all the information is available so that we can deal with it in a realistic way with realistic numbers.

The question that I have has to do with legal immigration, a question that I believe was touched on earlier. It has to do with the welfare reform bill that was recently passed in which benefits will be denied to legal immigrants or cut back in an effort to save \$17.5 billion over 5 years at the Federal level. According to the California Legislative Analyst's Office, the LAO has estimated that by denying these benefits to legal immigrants, there is a potential cost to the State of California of \$5.6 billion over a 5-year period. What it means is that, given the fact that California attracts more immigrants for various reasons, the LAO has said that California will bear about 32 percent of the total reduction of benefits to legal residents.

I would like to hear your comments on this issue and some suggestions as to how we can minimize the impact on California.

Governor WILSON. Congresswoman Roybal-Allard, I would say that the answer to that is that we should hold accountable the sponsor, the sponsor of the immigrant. I would have to say that if the sponsor cannot make good on his responsibility, then it is really the responsibility of the Federal Government, until such time as that person who is applying for citizenship becomes a citizen. Then

at that point obviously they are entitled to the full rights of any citizen, including the right to public assistance.

Ms. ROYBAL-ALLARD. Right now the deeming has been extended, I believe, to 7 years. There are legal residents that have been here for 30, 40, 50 years. Are you suggesting extending the deeming throughout the entire life of a legal immigrant?

Governor WILSON. As I understand the change that is in the works, they are contemplating holding accountable a sponsor.

Ms. ROYBAL-ALLARD. Right, but that is only for a 7-year period. There is a limit. What I am asking is, if legal immigrants remain in this country longer than the deeming period, are you suggesting that the deeming should be a lifetime deeming until that person becomes a citizen; or do you have other suggestions?

Governor WILSON. Perhaps I misunderstood the legislation, but as I understand it, they are tying it to whether or not someone becomes an applicant for citizenship.

Ms. ROYBAL-ALLARD. Right. But the deeming is limited to 7 years. And then that person is no longer under that sponsorship. So is that an area that needs to be looked at, is that what you are saying?

Governor WILSON. Yes, I don't think it should fall on the States. Again, I think as with the case of illegal immigration—immigration, legal and illegal, is the responsibility of the Federal Government. Refugees are the responsibility of the Federal Government until such time as they cease to have that status.

Ms. ROYBAL-ALLARD. OK. I think we are in agreement. My concern is that the way we are approaching this is that we are starting to put—or keep the responsibility at the State level, and we are going around in a different way. And I think that we need to make sure that California, in particular, is protected because we get hit the hardest. And so I would appreciate if you could look at that area and see if there are some recommendations that we could come up with.

Mr. HERGER. I thank the gentlelady from California.

The gentleman from Utah, Mr. Orton, will inquire.

Mr. ORTON. And thank you, Mr. Chairman.

Governor, welcome. In light of the fact that we have a vote on and you have a bad voice, I am going to outline three basic questions that you might respond to in writing, if you wouldn't mind.

Essentially, my questions have to do with block grants. This has become a very popular approach. Most of the Governors, I think, have indicated strong support for the concept. What I would like to know is, in your opinion, which programs should or should not be block-granted to the States?

For instance, I think most of the Governors said welfare should be block-granted. I am concerned. I would like to know what you think about Medicaid, Medicare, VA benefits, other elderly assistance programs, highways and infrastructure, and discretionary spending versus entitlements. And so, if you would, please tell us what you as a Governor of the largest State think is appropriate for block granting and what is not.

Secondly, I would like you to tell me if you have any concern at all in the future about the diminishing of those block grants. Clearly, if we eliminate the Federal involvement and say we are not

going to have a Federal entitlement, we will block-grant to the States. If we continue sending the same amount of money to you that we are sending now, we don't balance the budget. So in order to do this, we have to, in the future, ratchet down your block grants.

So I would like to know if, as Governors, you are concerned about the Federal Government turning over the responsibility and then the money drying up. And if in fact that is the approach that we use, how much of a reduction can you take before you are unable to provide the benefits?

And in fact, if we are going to go that way, why should the Federal Government charge the tax to begin with, bring it back here and then block-grant it out to the States? Why not just say to you, if you want to have a welfare program or Medicaid program, you raise money inside your own State and find a way to pay for it and run it yourself.

And so I think that is the ultimate outcome of that kind of broad general block granting approach.

And then finally, with regard to immigration, I would like to know, isn't it a little bit inconsistent to say we want the Federal Government to block-grant, eliminate their role and responsibility in all of these other areas, like Medicaid, welfare, et cetera, yet we now want them to acknowledge their role and responsibility in immigration? And if in fact they are going to do that, then I have a question that I am not quite certain about. Do you want the Federal Government simply to eliminate the mandates on California for providing services, so you can decide whether or not you want to provide them. And, do you want to provide them and come up with your own money, or do you want the Federal Government to take over the total role and responsibility to pay for all of the services? If you want that, how do we do it? Do you want us to raise taxes to come up with that additional money to pay for those?

And so I am a little bit confused about where the States would like us to go with regard to that. So, those are essentially my three questions. I won't require you to tax your voice in describing them any more than you want.

Governor WILSON. Let me answer at least the last one first.

We think that the optimum solution is for the Federal Government to acknowledge its responsibility which it has exclusively under the Constitution for immigration. We think they should first secure the border, then that they should lift all of the mandates, taking into account that they should still be obligated to pay for emergency health care because physicians will not deny it. They should be obligated to pay for incarceration, because that is a result that flows from the failure to secure the border.

The other thing that I would say is that once they have eliminated the mandates, it really is the Federal responsibility through INS to deal with the fact that there are millions of people in the country illegally.

Now, I think that answers your question on that score.

Mr. ORTON. Well, I guess the only other thing is, if we are going to take on the economic role and responsibility entirely, do you recommend that we raise taxes to do it? I mean, that is—and that is a rhetorical question.

Governor WILSON. No, I don't recommend that you raise taxes.
Mr. ORTON. I yield back.

Governor WILSON. I recommend that you recognize that as a primary responsibility, since it is the Federal Government that controls the borders and the Federal Government that properly has an Immigration and Naturalization Service.

Mr. KOLBE [presiding]. Mr. Pomeroy, did you want to try to ask questions?

Mr. POMEROY. Mr. Chairman, my time is up. I most certainly won't hold the Governor while we go vote and get back. I have a question if you can ever so briefly address or respond in writing.

Could California live with a capped block grant in Medicaid?

Governor WILSON. Yes, provided that you give us total flexibility to determine eligibility, coverage, and benefit levels, how we provide the service; give us the authority to price it, that is, to actually negotiate what we can afford to pay for. If you don't give us that kind of flexibility, the answer is no, it would not be fair. But as in the case of welfare, we can deal with a reduced block grant if we have that kind of flexibility.

Now, the one thing I would also add is that, in fairness, different States have different caseload growth. Wisconsin's is far less than California's, Nebraska's is far less than Florida's. And that has to be taken into account in fairness, I think. Even as you cap it, the allocation has to be based on a formula that bears some relationship to need.

Mr. POMEROY. Thank you.

Mr. KOLBE. Thank you, Mr. Pomeroy. I know you have to run; you have 3 minutes left on this vote.

Governors, just you and me left. Welcome. And everybody said they want to be mindful of your voice here, yet we keep asking questions, so here I go. I am going to actually just ask you one. It is really a followup on what Mr. Pomeroy said, and about Medicaid, and I wanted to ask you about an issue that has certainly been raised by our Governor—I am sure you are familiar with it—and the issue of the formula for disbursement.

Do you have a concern about the block grant formula for disbursement, locking in a formula which would seemingly reward States which have been high in their Medicaid spending? That is—and I know California is actually at the very low end; Arizona is well below the national average as well. The concern that we have is that if you simply say, OK, we are going to block-grant it, everybody will get what they have been getting before, you are rewarding those States which have been high spenders in Medicaid, allowing them to, in essence, lock in programs that have been inefficient.

The view, I know, of our Governor is to follow up, and I am sure you are maybe familiar with his statement and the letter he sent to Senator Dole is that it should be done on the basis of population within the poverty level, and that should be the formula for the distribution.

Would you comment on that?

Governor WILSON. I agree with Governor Symington entirely on that, because both Arizona and California have done a good job holding down their costs. We are now 48th out of the 50 in terms



of containing the costs. We are 48th lowest. We are the—if No. 1 is the most expensive, we are 48.

Mr. KOLBE. Right, right.

Governor WILSON. And you are right, it is not fair to penalize people who have done a good job. So I agree, they shouldn't be measuring this in terms of per capita income. It should be in terms of poverty.

Mr. KOLBE. Well, it will be an interesting fight, because I am sure that States—some of the States, like New York and some others, will of course take a very different point of view on that issue.

Governor WILSON. I think one of the interesting things is, I am told that the General Accounting Office has recommended to Congress that the FMAP should also be—that they agree it should be based on the poverty.

Mr. KOLBE. That the what should be, the F—the percentage?

Governor WILSON. Yes, the percentage, right.

Mr. KOLBE. OK, Governor, thank you very much. I will not let you tax your voice any further, although there are other questions I could ask.

On behalf of the committee, which has gone to vote, and Mr. Kasich, the chairman, who is, as you heard earlier, in a meeting with the Speaker, I want to say thank you very much for participating this afternoon, both you and Governor Thompson. We thank you very much for participation.

This committee will stand adjourned.

[Whereupon, at 4:43 p.m., the committee was adjourned.]

APPENDIX

MAY 2, 1995

HOUSE OF REPRESENTATIVES,
Washington, DC, May 3, 1995.

Hon. JOHN KASICH,
Chairman, House Budget Committee, Washington, DC.

DEAR CHAIRMAN KASICH: While reviewing Mayor Bret Schundler's testimony for the Committee on the Budget, I noticed an assertion that requires prompt correction. The mayor of Jersey City stated that, "by some estimates, less than 40 percent of the dollars spent on social welfare programs actually make it to the poor. The majority of the money goes to pay salaries for the Federal, State, and local government employees who administer the various programs."

I requested the Congressional Research Service to review Mayor Schundler's claim by looking at seven of the largest social welfare programs: Medicaid, Food Stamps, Child Nutrition, AFDC, SSI, Medicare, and Social Security. The majority of this money does not go to salaries for the people who administer these programs. As you will see on the attached sheet, administrative costs for these programs ranged from 0.9–12 percent of program costs—not 60 percent, as the mayor implied.

No one disputes that federalism and the appropriate roles of Federal, State, and local governments can and should be debated. Clearly, however, the use of misleading statistics to attack antipoverty programs is counterproductive to good government at all levels. In this climate of anger and skepticism about our government, it is only fair to the American people that each of us takes care to state the facts accurately.

I respectfully request that this letter and the attached table be included in the record of the May 2 House Budget Committee hearing to correct this inaccuracy.

With all best wishes, I am

Sincerely,

WILLIAM J. COYNE,
Member of Congress.

PROGRAM AND ADMINISTRATIVE COSTS FOR SEVEN MAJOR BENEFIT PROGRAMS

Medicaid (State and Federal, Fiscal Year 1994 Preliminary)

Total program cost	\$143 billion
Total administrative costs	\$6.184 billion
Administrative costs as a percentage of program costs	4 percent
Average annual benefit per recipient (includes States, DC, Puerto Rico, and excludes administrative costs—fiscal year 1993)	\$3,787

Food Stamps (Fiscal Year 1994)

Total program cost (Federal—includes Puerto Rico block grant)	\$25.6 billion
Total administrative costs (Federal)	\$1,863 billion
Administrative costs as a percentage of program costs (Federal)	7.3 percent
Administrative costs as a percentage of program costs (Federal and State)	12 percent
Average annual benefit per recipient: \$69/month	\$828/year

Child Nutrition (Fiscal Year 1994)

Total program cost (Federal)	\$7.7 billion
Total administrative costs (Federal)	\$144 million

Administrative costs as a percentage of program costs	¹ 1.9 percent
Average annual benefit for School Lunch, the largest of the child nutrition programs	\$200

AFDC (State and Federal, Fiscal Year 1994 Estimate)

Total program cost	\$25.742 billion
Total administrative costs	\$3.057 billion
Administrative costs as a percentage of program costs	11.9 percent
Average annual benefit per recipient	\$1,586

Supplemental Security Income (Fiscal Year 1994 Estimate)

Total program cost	\$30.318 billion
Total administrative costs	\$1.690 billion
Administrative costs as a percentage of program costs	5.6 percent
Average annual benefit per recipient	\$4,544

Medicare (Fiscal Year 1995 Estimate)

Total program cost	\$161.1 billion
Total administrative costs	\$3.3 billion
Administrative costs as a percentage of program costs	1.8 percent
Average annual benefit per recipient	\$4,800

Social Security (Calendar Year 1995 Estimate)

Total program cost	\$340.1 billion
Total administrative costs	\$3.1 billion
Administrative costs as a percentage of program costs	0.9 percent
Average annual benefit per recipient	² \$7,750

¹This number is low, as it excludes school administrative costs. CRS estimates a 4-percent administration cost when school administrative costs are included.

²This figure includes child and spouse payments, which bring the overall average well below the retiree average.



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